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INTERNATIONAL CURRENCY AND CREDIT RELATIONS  
OF THE USSR

By. A. M. Smirnov

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## FOREWORD

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INTERNATIONAL CURRENCY AND CREDIT RELATIONS  
OF THE USSR

By A. M. Smirnov

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## CHAPTER IV

### FINANCIAL AND EXCHANGE CONDITIONS FOR FOREIGN ACCOUNTS IN THE EXPORT AND IMPORT OPERATIONS OF USSR FOREIGN-TRADE ORGANIZATIONS

#### 1. Aspects and Forms of Accounting in International Trade

International exchange[\*] relations are basically composed of accounting relations between the real and legal persons of various countries in terms of foreign-trade agreements and non-trade operations. On the basis of these private relations, exchange transactions between government arise which are expressed in inter-governmental payments and exchange agreements. In order to analyze the latter, it is necessary to examine the basic questions of financial and exchange conditions of accounting in foreign-trade agreements concluded by firms and organizations of various countries with one another. The establishment of appropriate financial and exchange conditions of accounting is equally significant for the determination of the price of the commodity and the maintenance of a profit margin in the related foreign-trade operations.

Financial and exchange conditions, as well as the accounting in foreign-trade operations, are arranged in agreements concluded between exporters and importers.

In international capitalist trade, in which the economic laws of capitalism apply, the forms and means of accounting (as all else) determined by these treaties (price of commodity, terms and system of delivery, etc.) depend on the correlation of forces of the parties concluding the specific foreign-trade transactions.

One of the most significant factors determining the correlation of forces of the parties in trade transactions concluded by capitalist countries is the situation in the respective commodity markets.

In capitalist foreign trade, which is characterized by a sharp struggle for markets, the position of the exporter, as a rule, is weaker than the position of the importer. This is explained by the fact that commodity transformation, the conversion of capital

[\* Also referred to as "currency" in this translation.]

from commodity form to monetary form is in itself one of the difficult problems in a capitalist economy. However, the changing conditions tend to weaken or strengthen the position of the exporters or importers of the various commodities. In a stronger conjuncture, the position of the exporter becomes -- other factors being equal -- stronger than that of the importer. In a weaker conjuncture, on the other hand, the position of the importer becomes stronger than that of the exporter.

Various special circumstances, such as war, post-war shortages in particular commodities, crop failures, etc., can create a particularly advantageous position for the exporter. Thus, during World War II and the first years afterwards, there was a buyer's market in the foreign market. Such a situation existed in the raw-materials markets in 1950-1951, during the military action in Korea, and in the market for petroleum products at the end of 1956, in connection with the closing of the Suez Canal as a result of the Anglo-French-Israeli aggression against Egypt.

Monopolies, which control the production of and trade in separate commodities, have a significant influence on the correlation of forces of the parties in foreign-trade transactions.

On the other hand, the forms of accounting and financial conditions of transactions also depend on the nature of the commodity and the existence in the trade in certain commodities of conventional accounting conditions. Thus, for example, the financial conditions of transactions involving orders for industrial equipment and machinery differ from the accounting conditions in purchases of raw materials and food products. Special accounting conditions exist for certain exchange commodities. In international trade in such types of commodities as forest products, grain, petroleum products, and others, standard transaction conditions devised by the capitalist associations of the respective exporters and importers sometimes operate.

A not insignificant role in the determination of accounting conditions is played also by the credit position and solvency of the other party with whom the given foreign-trade transaction is concluded.

The basic types of foreign-trade accounts are: 1) the cash account; and 2) the credit account, the crediting of the importer by the exporter, or vice versa. An intermediate form which is seldom encountered is the credit account with the option of cash payment.

This form of credit exists usually in connection with those products in which the market price agreed upon, in itself, includes an increase for the provision of credit. If the importer does not wish to utilize the credit and prefers to pay cash, he realizes a reduction in the price of the commodity calculated on the basis of credit.

A cash account is understood to be that type of account in which payment for a commodity takes place the moment the transition in ownership takes place to the buyer of the commodity, or on presentation of the invoice.

The practice of international trade somewhat broadens the concept of the cash account, including in it such instances in which there are certain elements of credit, such as, for example, the payment for a commodity the moment the contract is signed, or simultaneously with the delivery to the consignee of the bill of lading for the goods, that is, before the change of ownership takes place.

A credit account in international, as in domestic, trade is understood to include only commercial credit, or credit between the manufacturer and buyer or the exporter and importer, in accordance with specific transactions agreed upon by buyer and seller. In connection with this, payment to sellers in the other country for goods received, with money loaned by the government or banks of that country would not be considered a credit account because accounting with the individual foreign contractors by the importers will be in cash from the credits received. In crediting an importer by an exporter, the sale of goods takes place with a postponement of payment.

The basic forms of cash accounts in the foreign-trade transactions of buyers and sellers are: 1) the open account; 2) the collection account; and 3) the credit account.

Under conditions of international capitalist trade, which is subordinated to the fundamental economic law of capitalism -- the law of surplus value and the insurance of maximum profits, as well as the law of competition and anarchy of production -- the interests of the exporter and importer are contradictory; to the extent that when a given form of cash account is advantageous to the exporter, it is disadvantageous, other factors being equal, to the importer; and vice versa.

Therefore, in examining the various forms of cash accounts, one should conditionally examine them from the points of view of both sides to a trade transaction.

- 1 -

The open account is a much less advantageous form of cash account for the exporter.

Accounting through open accounts is characterized by the goods or invoices being transmitted to the importer before payment. Payment is made by the buyer in the term stipulated in the contract. If the term exceeds one month, then in trading practice the open account is not considered a cash account, but a credit account.

In the open account form, the exporter records as a debit in the importer's account the amount due from him for the goods sold, and the importer records this amount in the exporter's account as a credit. After payment for the goods by the importer, both sides make reverse entries in their books.

A negative aspect of this form of accounting for the exporter is the lack of protection he has from losses in the event of non-payment by the importer-buyer for the goods delivered to him. Such instances arise as a consequence of dishonesty by an importer, as well as insolvency or bankruptcy.

In addition, the open account usually leads to a slow down in receipts from the exporter. This is because payment for the commodity does not, as a rule, take place immediately after the receipt of the invoice by the buyer. It is possible for the latter to delay payment for the goods, making to the exporter various and frequently unfounded excuses.

The open account is used in inter trade in large part in accounting for numerous deliveries of goods by small parties, when there is a long-standing relationship between the exporter and importer, and also in connection with large reliable firms, particularly when the buyer is a government organization. The open account is found also in the accounting of exporters with brokers and consignees, for goods sent on consignment for sale from a warehouse.

For importers the open account is, other factors being equal, a most advantageous type of account, in that it does not tie up their working funds [capital], makes credit with banks unnecessary, and frees the buyer from the risk of loss resulting from payment for unaccepted and unsatisfactory goods.

In the collection account, the invoice and bill of lading of the undischarged goods is not sent directly to the importer, but through a bank to perform the collection function for the exporter or his bank. The collection bank releases the bill of lading to the im-

porter for the goods only after full payment is made; as a result, the exporter is protected from possible loss through non-payment by the importer for the goods or bill of lading turned over to him.

In the collection account the buyer is allowed a few days grace (from 5-14, sometimes more) in which he must redeem the bill of lading from the bank. The collection form of accounting does not, however, guarantee the exporter the redemption of the bills of lading by the buyer within this period. It is possible for the buyer under various pretexts not to fulfill his obligation and to delay redemption of the bill of lading. In such a case, the exporter's receipts for the goods are delayed and he will not be in a position to repay on time the loan made to him by his bank and it will be necessary to pay a higher interest. A fine for each day of non-payment is usually stipulated in the contract to prevent such losses. Other means of protection against losses resulting from non-redemption of the bill of lading by the buyer within the stipulated period is the receipt from the buyer of a deposit or a bank guarantee of eventual payment for the goods.

As is evident from the preceding the collection form of accounting protects the interest of the exporter to a greater degree than the open account. At the same time, however, it has the disadvantage for the exporter that it more or less slows down the turnover of funds invested in the export operation.

On the other hand, for this very reason, the collection account has almost the same advantages for the importer as the open account. In the collection form of accounting it is not necessary for the importers to advance cash before receipt of the goods and it is not necessary for them, therefore, to engage bank credit.

It should be noted that in the practice of capitalist international trade, especially in Great Britain and the US, in the collection form of accounting (as with letters of credit), exporters issue bills of exchange for the amount of the invoice value of the goods sold at the same time that they send the bills of lading to the importer or his bank. If the commodity is sold on credit, the invoices are transferred by the collecting bank to the importer or his bank against the acceptance of the bills of exchange of the exporter. In the absence of credit as well, British and US banks usually demand presentation of the bills of exchange upon payment of the invoices. The drafts are put at the disposal of the exporters. In such a case the bills of

exchange are forwarded to the exporters on demand.

The most advantageous form of cash accounting for the exporter is the irrevocable letter of credit opened by the importer in a bank of high repute.

The letter of credit form of accounting protects the exporter from such a risk as non-payment for a commodity received by the exporter as well as from losses resulting from non-redemption or delayed redemption of the invoices.

The irrevocable letter of credit gives the exporter faith that the invoices presented by him will be settled by the bank in accordance with conditions of the letter of credit. With the letter of credit the obligation for payment is assumed by the bank issuing the letter of credit instead of the importer. This obligation remains in force regardless of what might occur in the future to the importer or to his property (for example death, bankruptcy, etc.). At the same time the letter of credit form of accounting assures the exporter of a faster return of proceeds from the sale of goods than the open account or the collection account. The exporter, therefore, can get by without obtaining a loan on the shipped goods or is able to diminish the term of such a loan to the maximum. On the contrary, for the importer the letter of credit is the least advantageous form of cash account, other factors being equal. The importer must advance his monetary resources for the issuance of a letter of credit long before the receipt of the purchased goods and must therefore resort to credit in the bank and pay interest on the loan. The expenses associated with the issuance of a letter of credit are borne by the importer, in conformity with the established trade practice. The commission to the banks for the issuance of commercial letters of credit is higher than a commission for a collection operation.

The exporters always demand that the letters of credit in their favor be issued in advance, in any case before shipment of the goods to the importer. Untimely issuance of the letter of credit results in certain losses for the exporter in terms of expenditures for the storage of the goods, the decrease in turnover of circulating capital, and other expenditures. Fines are usually established in the contracts for the delayed issuance of a letter of credit by the buyer. Another matter stipulated by exchange transactions is the term of the letter of credit. The term depends upon

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the nature and quantity of the goods sold, delivery deadlines and the shipping conditions.

The letter of credit is always limited to a specified amount corresponding to the invoice value of the sold product and other expenditures paid for with the letter of credit.

Letters of credit are revocable and irrevocable, confirmed and unconfirmed. Only the irrevocable letter of credit gives the exporter the guarantee of the timely payment for the goods and, therefore, frees him from the risk of non-redemption of the invoices by the buyer. With the revocable letter of credit the importers can evade the acceptance of the invoices and payment ordering the bank to revoke the letter of credit. The question of confirmation of credit by the bank may occur in those cases where the bank issuing the letter of credit and the bank commissioned with the payment for the invoices with the letter of credit are different institutions. This usually occurs in cases where the letter of credit is initiated by the importer in a bank of his own country and payment by means of such a letter occurs in a bank of the country of the exporter or a third country. In the case of an irrevocable letter of credit, either confirmed or unconfirmed, the bank issuing the letter of credit is always obligated to the exporter. However, the bank which pays the invoices on commission of the bank issuing the letter of credit bears the responsibility towards the exporter only if the letter of credit is confirmed. In such a case the letter of credit is for the first bank irrevocable and for the second bank, confirmed. If the second bank makes only the payment on order of the bank issuing the letter of credit for the invoices, but does not take upon itself any responsibility for their payment, the letter of credit will then be, in relation to the second bank, unconfirmed. Further, letters of credit can be plain or single draft and automatically replenished or revolving. A revolving letter of credit is issued to cover part of the agreed value of the goods sold with an obligation on behalf of the bank for subsequent replenishment and extension of the letter of credit within the limits of the amount stipulated for the period specified, with the degree of its use.

Letters of credit can be initiated by the importer, depending upon the conditions of the contract, in favor of the exporter or at the order of the exporter. In the first case only the exporter is authorized



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to draw on the letter of credit. In the second case the right to draw on the letter of credit can be transferred by the exporter by means of a transferring endorsement to any other person.

So-called transferable letters of credit are sometimes found in international trade. Letters of credit of this type indicate that the person in whose favor or for whose order the letter of credit is issued, has the right to request the issuing bank to transfer the given letter of credit to another bank in favor of the beneficiary or another person at the same conditions on the basis of which the initial letter of credit was issued. If it is indicated that the credit is divisible, then it means that, on the basis of the specified letter of credit, it is possible to issue several letters of credit, on the condition, however, that their total value does not exceed the sum indicated in the original letter of credit.

Of particular interest from the exporter's point of view, is the question of which bank will the letter of credit in his favor be issued from. Upon this depend the certainty of payment and the promptness of the returns for goods sold, and, consequently the rate of turnover of the resources invested in the export operation. Exporters are usually interested in having the letter of credit be issued by a bank of their own country. The initiation of a letter of credit in a bank of the importer's country or in a bank of a third country usually leads to a slower turnover of the resources of the exporter.

## 2 Currency Conditions of Payment

One of the essential problems demanding solution in the conclusion of foreign trade and credit agreements between firms, bank, and organizations of various countries is the determination of the currency conditions of payment. The necessity of precisely establishing these conditions arises from the existence in various countries of diverse exchange systems that differ in their legal and factual gold content and purchasing power.

In contemporary international trade the establishment of exchange conditions of payment boils down to two basic issues: 1) the establishment of foreign exchange prices and payments in international and credit transactions and 2) the inclusion into contracts concluded in insufficiently stable foreign exchanges, of

provisions protecting both parties from the currency risk.

In international trade contracts the buyer and the seller must always agree in advance on the currency in which the price will be expressed and the payment transacted, for the commodity. In credit agreements, the currency in which the establishment and liquidation of credit and payment of interest will be made must be decided upon beforehand.

The particular currency in foreign trade and credit transactions may be either that of the country of the seller (creditor), the buyer (the debtor), or the currency of a third country. The currency in which the price of the sold commodity is established (in credit agreements: the amount of credit) is called the transaction currency, (the price currency in buyer and seller contracts, the credit currency in credit agreements).

The currency in which the payment for a commodity takes place (in credit agreements: the liquidation of credit and the payment of the interest), is called the payment currency or the accounting currency.

More commonly the transaction currency and the payment currency in international trade and credit contracts coincide. Cases exist, however, in which the price of the goods sold is established in one currency, with the payment for them in another currency. Rarer are cases encountered in which the credit currency and the currency of credit liquidation do not coincide.

The establishment of the price of the commodity in one currency with payment in another can serve as a type of insurance from currency risks arising from the possibility of a change in currency rate of exchange.

Prior to World War I, when the majority of the nations were on the gold standard, each side strove to conclude the agreement in its own currency. If the exporter sold the commodity in his own country, the transaction currency was usually the currency of the exporting country. If the exporter concluded a transaction for the sale of the goods in the country of the importer, the transaction was usually completed in the importer's currency. Furthermore, transactions were completed in the certain foreign currencies for certain lines of products, depending upon the established customs of international trade. These customs arose because of the fact that particular countries played the pre-dominating role in the international market for certain

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kinds of commodities. Thus, for example, most of the transaction in non-ferrous metals and rubber took place in pounds sterling because Great Britain controlled the most significant sources of rubber, tin, and several other non-ferrous metals. For exactly the same reason until World War II, Great Britain played an extremely significant role in world shipping with the result that the majority of the transactions in sea shipments were completed in pounds sterling. The United States played a significant role in the world petroleum market. As a result petroleum products were sold usually for dollars. For the same reason, furs were generally sold for American dollars because the United States was the main market for this product.

When a given country was under the gold standard the transaction currency in which the price of the commodity was expressed, usually coincided with the payment currency, that is, with the currency in which the accounting for the commodity took place. After the First World War, when inconvertible paper currencies appeared in most countries, exporters aspired to sell commodities in those currencies which seemed to them to be most stable - in US dollars and pounds sterling.

The currency conditions of accounting in international trade underwent essential changes in the period of the world economic crisis of 1929-1933. During and following the crisis all the capitalist countries found it necessary to rescind the gold standard and lower their rates of exchange. In many countries currency restrictions were established. Exporters in those countries where the currency restrictions were introduced and the currency of which became inconvertible attempted to sell their commodities for convertible currencies of third countries. The currency legislation of England during the Second World War required that the exporters sell English commodities only for convertible currency. On the otherhand the importers of countries with currency restrictions attempted to pay for commodities purchased in other countries with their own restricted currency.

At the present time, when the currencies of Western European capitalist countries have become convertible in current operations (see chapter V), the choice of a payment currency is difficult only in those capitalist countries in which currency restriction is still in force.

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In all cases where the price currency of the commodity does not coincide with the payment currency, the question of at which rate of exchange to calculate the transaction currency arises, that is of the price of the commodity into the payment currency. It is possible to apply various rates of exchange. Cable transfers or check rates, buyer's or seller's rates, or an intermediate rate between the buyer and the seller rates.

The rate of conversion of the transaction currency into the payment currency is usually agreed upon in the contract with the buyer. The currency market in which the conversion is to take place is also indicated. The exchange rates in various currency markets do not always coincide. For the exporter it is usually more advantageous to make the exchange in a freer currency market. If the transaction is completed with the payment in the currency of the exporter the importer must then buy this currency in order to comply with the conditions of the agreement. In such cases, therefore, the rate of the sellers takes place by means of bills of exchange or cable transfer of the transaction currency.

The rate at which the transaction currency is to be converted into the clearing account currency, which is the payment currency, is stipulated by the payment agreements concluded among the countries.

Another significant question related to the currency conditions of payment in international trade and credit transactions is that of insurance against currency risk.

Under the contemporary capitalist world trade conditions currency losses can threaten both exporters and importers, creditors and debtors primarily for the following reasons. First of all due to the instability of capitalist currencies in the period of general crisis of capitalism manifested in the lowering of their parities and exchange rates as well as the establishment of various exchanges in international trade operations. Furthermore due to the sharp fluctuations in the buying power of currencies with relation to international products. In addition to that the losses resulting from the currency problem can result due to the introduction in various countries of new currency restrictions or the strengthening of existing restrictions as a result of which the use of currency means is made difficult.

The fundamental means of protecting the exporters from the risk of freezing gains from export in bank accounts following currency restrictions is the con-

clusion with the related countries of clearing agreements. More about this is to be found in the following chapter.

Losses resulting from drops in the exchange rate threaten exporters not only when sales of commodities are made on credit, but in all those cases in which a period of time elapses between the conclusion of the agreement with the foreign buyer (and the establishment of the price of the commodity) and the time of payment for the commodity in question.

In selling commodities in foreign exchanges the exporters risk not receiving the full value of the sold product agreed upon with the buyer if, at the moment of payment, the exchange rate of this currency will drop, with the result that the exporter will not receive the former quantity of gold and purchasing power in relation to the product.

On the other hand the importers are threatened with losses if the rate of exchange of the currency in which the prices of the purchased commodities are established is raised.

With the aim of eliminating losses for the exporters or importers, creditors or debtors, resulting from any changes in the rate of exchange of the currency in which the price of the commodity is designated, or in credit agreements - the amount of credit, the following means of insurance against (see note) currency risk in international capitalist trade are utilized:

- 1) Agreements with the exchange rate of a fixed date;
- 2) The inclusion of a currency clause as a condition of a payment in the agreement;
- 3) The inclusion of a gold clause in the agreement;
- 4) The conclusion of a purchase agreement simultaneously with the sale agreement, for a similar value in goods and the same period of time - i.e. the immediate utilization of the prospective receipts from the export transaction.

(/Note / In practice, insurance against the currency risk is provided for, primarily, in cases of a reduction of the rate of exchange, in that cases in which the exchange rates are increased are rare in contemporary capitalism.)

- 5) The conclusion of compensating and barter transaction;
- 6) The inclusion of clauses for the revision of commodity prices in case of devaluation or significant drop in the rate of exchange during the transaction.

The possibility and expediency of the application of one or another means of protection from currency risk depends in each particular case upon the concrete economic situation and the position of the related currency at the given moment.

In capitalist countries which apply currency restrictions, which are marked by the absence of a free currency and gold market and the convertability of currency, individual means of protection from currency risk, in particular, dated transactions, can be considered practically impossible, or associated with significant difficulties. Gold and currency clauses are the most comprehensive method of protection from currency risks in international trade.

The currency clause is a condition included in the sale-purchase contract or the credit agreement, according to which the amount of the payment for the goods or the amount for the liquidation of credit is determined depending upon the rate of exchange of the currency with relation to the specific established foreign currency base in the contract. The inclusion of the currency clause as a condition of the account in trade and credit transactions may exist in two forms: 1) by way of establishing the price of the product sold or the amount of credit extended in a specific stable currency with an understanding that the payment for the commodity or credit will be made in another currency stipulated in the contract, usually the local currency of the importer or creditor, in a sum corresponding to the exchange rate of this currency in relation to the stable currency on the day of payment; 2) by a clause on the change of the price of the product or the credit in the stipulated currency in the same ratio in which the stable currency's rate of exchange has changed with relation to the transaction currency at the moment of payment in comparison with the moment of the conclusion of the commercial treaty or credit agreement.

In the first variant the price of the commodity in the export transaction is established in some rela-

tively stable currency, such as Swiss francs or American dollars, and payment for the commodity is stipulated in another currency somewhat less stable, such as English pounds sterling or Belgian francs.

Let us suppose that the transaction was concluded before the devaluation of the pound sterling on 18 September, 1949, and the price of the commodity was estimated at \$201.50, which was convertible in terms of the exchange rate at that time into 50 pound sterling ( $\$201.50 : \$4.03 = 50$  pound sterling). The delivery of the commodity occurred after the devaluation when the exchange rate of the pound sterling dropped from \$4.03 to \$2.80. As the price of the goods was estimated in dollars, the formal gold content of which remained the same, the exporter should have received for the goods the amount in pounds sterling which would have corresponded after devaluation to \$201.50, that is about 72 pound sterling ( $\$201.50 : \$2.80 = 72$  pound sterling). Therefore, because of the currency clause, the exporter avoided losses which he would have incurred because of the devaluation had he stated the price of the commodity in that currency.

In the second variant of the currency clause the price of the commodity and the payment for the commodity (in a credit transaction - the amount of credit) are established in a single currency, for example, in the domestic currency of the importer, or, in our example, English pounds sterling. It is stipulated, however, in the agreement at the same time that if, at the moment of payment the exchange rate changes, for example the USA dollar, in relation to the transaction currency - pound sterling, the price of the commodity and the overall amount of payment changes in the same proportion. Let us suppose that under these conditions a quantity of commodities in England before devaluation was sold at the rate of 50 pound sterling per item, consisting of 1000 items with the overall value of 50,000 pound sterling. If the delivery and payment for the commodity occurred after the devaluation, the sum of pounds sterling due to the exporter, increased in the same proportion in which the dollar rate increased in terms of pound sterling as a result of the devaluation. As a result of the devaluation of the pound sterling by 30.5%, the dollar exchange rate increased 43.9%. Consequently the exporter receives for each item not 50 pound sterling, but approximately 72 pound sterling and the total sum not of 50,000 pound sterling,

but of approximately 72,000 pound sterling.

It is possible to establish the currency clause on the basis of parity or the exchange rate of the currency. In the latter case the exporter should stipulate the rate at which the conversion of the corresponding stable currency into the transaction currency will take place. A higher exchange rate of a stable currency is more advantageous for the exporter.

It is necessary to keep in view the fact that a currency clause is a guarantee against currency risk only under the condition that the "stable" currency in which the price of the commodity is defined (in the first variant) or that in relation to which the price and sum of payment are changed in the transaction currency (in the second variant) is in fact a stable currency.

Under conditions of the deepening general crisis of capitalism after the Second World War, not one capitalist currency can be considered completely solid and stable. The possibility of depreciation of such well recognized relatively stable currencies as the American dollar and the Swiss franc.

A "stable" currency with which the exporter protects himself against losses resulting from a possible reduction in the exchange rate of an unstable currency can itself be reduced. The following cases are theoretically possible. The "stable" currency may drop while the rate of the unstable currency protected from currency risk remains unchanged. In this case the exporters protecting themselves from currency risk by means of currency agreements incur specified losses, but the importers receive exchange rate profits. Such an instance occurred in Germany during the world economic crisis of 1929-1933 when the German exporters, fearing a devaluation of the German mark, designated the prices of the goods sold by them in USA dollars with payment in marks at the rate on the day of payment. The drop of the dollar exchange rate after the USA abandoned the gold standard in April, 1933, and then the devaluation of the dollar by 40.94% in the beginning of 1934, together with an unchanged official exchange rate of the German mark resulted in significant losses for the German exporters using this means of protection from currency risk.

It is possible for the "stable" currency to decrease at the same rate as the protected unstable currency.



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The currency clause attains its goals only under the condition that the gold content of the "stable" currency remains unchanged at the time when the unstable currency drops.

The Gold Clause. The gold clause is a better means of protection from the risk of the exchange rate reduction than the currency agreement based on capitalist currencies.

The purchasing power of gold in terms of commodities is also subject to change. However, the quantity of gold which is directly or indirectly equated to the price of the commodity or the amount of credit, remains unchanged through the gold clause when the official gold content of the "stable" currency utilized for the protection from currency risk may drop as a result of devaluation. However, it must be taken into consideration that the gold clause may only be applied in practice to those foreign currencies which have a specified gold content, which may be established on the basis of an official currency parity or the market "price" of gold in the corresponding currency.

The gold clause is the inclusion in sale-purchase contract or credit agreement of a condition that payment for the commodity or liquidation of credit must take place either in terms of a directly stipulated quantity of gold (in bullion or in coin) or a quantity of a specified currency calculated in terms of its gold value, that is, proceeding from the gold content of the currency indicated in the contract or credit agreement.

Three types of gold clauses are to be differentiated: the gold bullion clause, the gold coin clause, and the gold currency clause.

In the gold bullion clause the price of the commodity or the amount of credit extended is established in terms of a specified weight of gold so that payment for the commodity or liquidation of credit will take place in that number of kilograms or units of pure gold which was stipulated in the agreement. At the present time in which a free legal market for gold does not exist in the majority of countries and the central banks and treasuries do not sell gold freely to those who desire it, this clause is not available to private enterprises. It can be applied only in inter-governmental agreements or in agreements in which an obligated party is a state.

In a gold coin clause the price of the commodity or the amount of credit is established in a de-

signated quantity of gold coins of a given denomination, weight, and purity, and the payment for the commodity or the liquidation of credit takes place in gold coins in a designated quantity. The gold coin agreement was quite common in the 14th century and from the 90's until the First World War. The gold coin clause lost its significance in almost all capitalist countries in the period between the wars when the minting and circulation of gold coins ceased. In those cases in which previously concluded agreements stipulating gold coin clauses existed, the courts of capitalist countries usually interpreted them as gold currency clauses.

The gold-currency clause is at the present time the most extensive and almost the only type of gold clause. The gold currency clause refers to the inclusion into the sale-purchase contract or the credit agreement of a provision according to which the price of the commodity or the amount of credit will be established in a specified currency calculated in terms of its gold value. Thus the payment for the commodity or the liquidation of credit takes place in the sum stipulated in the currency agreement which will be equivalent to the value of the agreed upon gold content of that currency. If, at the moment of payment, the gold content of the given currency is decreased and the "price" of gold in that currency increases, the debtor will be obligated to pay the creditor the amount in that currency which would be equivalent to the value of the amount of gold stipulated in the contract or credit agreement.

In the international trade of capitalist countries the gold currency clause is applied in two variants.

In the first variant the price of the commodity or the sum of credit is established in a specific currency with an indication of its gold content, and payment for the commodity or liquidation of credit takes place in an amount which corresponds at the time of payment to the value of the gold content previously indicated.

As an example of the first variant we can present the following formulation of a gold currency clause: "The price of a given item is 10,000 USA dollars (1 USA dollar = 0.88867 grms of pure gold, or 1 ounce of pure gold = 35 USA dollars). Payment for the commodity will take place in an amount of US dollars which will be equivalent at the moment of payment to the stipulated

gold content of the dollar in the agreement".

If, for example, at the moment of payment the gold content of the dollar decreases by one-half (from 0.88867 to 0.444335 grams), the quantity of gold stipulated in the agreement would then cost \$20,000. (0.88867 grams x \$1,000.00 ÷ 0.44335 = \$20,000.00). The buyer must pay this sum for the commodity.

In the second variant the payment for the commodity or the liquidation of credit is stipulated in a designated currency with the clause that if the "price" of the designated quantity of gold (1 unit, 1 kilogram) in the indicated currency in the contract increases at the time of payment in comparison with the time at which the contract is made the price of the commodity or the amount necessary for the liquidation of credit increases proportionately (a unilateral clause).

The following is a formulation of this gold currency clause: "The price of the given quantity of goods is 1,000 pounds sterling. If the price of 1 ounce of pure gold increases at the time of payment by comparison with the time of transaction (1 ounce of gold = 172 shillings, 2 pence), the price and the general value of the commodity sold is increased proportionately."

If this transaction was concluded before the devaluation of the pound sterling and the payment was to take place after devaluation, as a result of which the price of 1 ounce of gold increased from 247 shillings, 6 pence or by 43.9%, then the buyer would have had to pay for the commodity 1,439 pound sterling, that is 43.9% more than designated in the contract. (1,000 pounds sterling x 247 shillings 6 pence ÷ 172 sh. 2 pen = 1,439 pounds sterling).

The amount of payment under the gold clause may be established with dependance on changes in the parity (gold content) of the currency as well as changes in the "price" of gold on the open gold market. The parity basis is more reliable in that the parity of the currency is established by the state and is not subject to controversy.

The gold as well as the currency clause may be unilateral, bilateral, or reciprocal.

The unilateral gold and currency clauses can be designed to protect the exporter and the creditor from losses resulting from the reduction of the currency exchange rate in which the trade or credit transaction is concluded, or the protection of the

exporter and the creditor from the risk of an increase in the exchange rate of the currency in which the commodity is bought or credit is received. The unilateral gold and currency clauses will be formulated in the appropriate manner.

In practice in international trade the exporters usually insist upon the inclusion of gold and currency clauses in contracts when the transaction is concluded in a currency in which the rate of exchange may drop. Therefore, the gold clauses frequently have a unilateral character and are included in contracts in the interests of exporters.

Bilateral gold and currency clauses mean that the amount of payment for the commodity or the liquidation of credit in the currency stipulated in the agreement may increase or drop depending upon whether the exchange rate for that currency will drop or increase at the moment of payment in comparison with the moment of conclusion of the transaction. Thus, for example, if the exchange rate of the currency in which payment is established for the commodity has increased, and consequently the "price" of gold in that currency has decreased, in a bilateral gold clause the price of the commodity in that currency and the total sum of payment are appropriately decreased. In order to avoid a lower payment in the case of the bilateral gold clause, exporters sometimes insist upon the inclusion of a supplementary clause to the effect that the payment for the commodity in all cases cannot be lower than that agreed upon in the contract.

The first variant of the currency clause in which the price of the commodity is established in a designated stable currency but the payment for the commodity takes place in another currency designated in the payment in terms of the exchange rate on the day of payment is also always a bilateral treaty.

In practice the bilateral gold and currency clauses are actually insurance against currency risks only for exporters and creditors because in the contemporary disordered currency relations in the capitalist world the increase in the exchange rate of capitalist currencies is extremely rare, and in any case, only temporary.

The fluctuation of the exchange rate of individual foreign currencies can be small or significant. In relation to this in certain contracts and agreements a designated limit in the change of the exchange

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rate of the currency is provided for, after which a gold or currency clause becomes effective. It may be stipulated in a contract that a change in the amount of payment for commodity or the amount necessary for the liquidation of credit takes place only in the event that the exchange rate of the unstable currency decreases or increases, for example, by more than 1% - 2%.

Gold clauses as a means of insurance against currency risk in international transactions were used in the period between the First and the Second World War mainly with convertible currencies. The gold clauses were applied relatively rarely to the closed currencies of countries with currency restrictions. This is explained by the fact that under condition of currency restrictions the inflexible official exchange rate of a currency that does not change with the daily fluctuation of the balance of payments of the country is in effect. However, even under the condition of currency restrictions, changes in the official rate of exchange are possible. After the Second World War, many inflexible currencies of capitalist countries were subjected to repeated devaluations.

The presence of gold or currency clauses in the payment agreement concluded between one or another country does not mean that the currency risk of exporters as well, selling commodities in this country is eliminated.

A gold or currency clause stipulated in a payment agreement between states provides security against depreciation of only the balance outstanding at the moment of devaluation in the clearing account. In other words, the adjustment in connection with the drop in the exchange rate of a currency applies only to the sum entered in the clearing account before the devaluation, which have been used for the payment of deliveries and services of another country by the moment of devaluation.

Regarding the accounting between exporters and importers, if the transaction is concluded before devaluation and the delivery of the commodity occurs afterwards, the exporter in the absence of a gold or currency clause in the contract receives the stipulated price for the commodity in the depreciated currency.

In the conclusion of export transactions with the gold clause, it is necessary to take into consideration that in several capitalist countries, as, for example, the USA, the gold clause is not actually

recognized by law. The non-recognition of the gold clause in relation to the dollar is limited, however, to transactions concluded and subject to completion within the territory of the USA. In other countries the inclusion into credit and trade contracts of gold clauses in dollars is completely possible and practiced quite widely.

The expedience of inclusion into contracts of gold or currency clauses depends in each separate case upon the magnitude of the currency risk. In other words, it depends upon the degree of stability and the potentiality of change of the exchange rate of that foreign currency in which the transaction is concluded. Other factors being equal, the greater the time lapse between the date of the conclusion of the contract and the establishment of the price of the commodity and the date of the delivery of the commodity and the payment, the greater the risk of depreciation.

The area of application of the gold and currency clauses is not restricted only to international trade transactions between exporters and importers. It also includes the credit agreements of all types of inter-governmental clearing agreements.

Under conditions of post-war currency instability in capitalist countries and the currency policies of the USA, the effectiveness of the gold clauses is limited.

The restricted effectiveness of the gold clause under contemporary conditions is explained primarily by two reasons: the low official price of gold in the USA which has become the world price of gold in the capitalist economy, and the artificiality of the parities of majority of the capitalist currencies. The currency parities of the majority of capitalist countries are high in comparison with their purchasing power in terms of commodities. This applies not only to the currencies of Western Europe, but, first of all, to the USA dollar as well.

Payments according to contracts with the gold clause take place ordinarily in the domestic currency of the country of the importer on the basis of its formal gold content prior to or on the day of payment, or the "price" of gold in that currency defined on the basis of the dollar exchange rate and the official "price" of gold in the USA. The official "price" of gold in the USA of \$35.00 per ounce is very low. It

remained unchanged from the end of January, 1934, despite the fact that the level commodity prices, even on the basis of the official American wholesale and retail price indices, increased in comparison with pre-war prices by more than two times.

The exporter and creditor receive from the importer and debtor that amount of currency which is equivalent in its gold content to the total amount of the commodities sold or credit extended as a result of the inclusion into the international trade contracts and credit agreements of currency and gold clauses.

This does not mean, however, that the amount of currency received by them will possess the same buying power that it possessed at the moment of the conclusion of the trade or credit clause. In other words, this does not mean that the prices of the commodities after the devaluation increase at the same rate at which, as a result of the decrease in the gold content of the currency, the "price" of gold and the exchange rate of the stable foreign currencies increases. In devaluation the increase of commodity prices lags, as a rule, behind the increase in the "price" of gold resulting from the decrease of the parity of the currency.

Because of the theory of value, the decrease of the gold content of the currency in devaluation stimulates the spontaneous adjustment of the price of commodities to the changing value of currency. The process of price changes of commodities requires a certain amount of time and occurs unequally for different groups of commodities. Some prices increase quickly, others slowly. The prices of some commodities increase more quickly than the price of others.

At the same time, it is necessary to take into consideration the fact that the prices of commodities change not only as a result of inflation, or monetary factors, but as a result of commodity factors as well, such as the increase or decrease in the costs of production as a consequence of technological development, an increase in the productivity of labor, and changes in the relation of supply and demand on the market. These factors can either partly or completely counteract the impact of inflation and the devaluation of currency on commodity prices and weaken or strengthen the increase in prices stimulated by them. Cases can occur as, for example in Great Britain in the period of world economic crisis of 1929-1933 in which the depreciation of the English pound sterling by more than 30% did not cause a noticeable increase in commodity prices because of the simultaneous impact of the counteracting tendency of the commodity prices to drop as a result of the crisis. The devaluation of the English pound sterling in 1949 by 30.5% signified an increase in the "price of gold and the exchange rate of the American

dollar by 43.9%. The prices of commodities increased significantly less.

With reference to the above, exporters and creditors who insured their currency investments through the gold or currency clauses and who used their receipts from the sale of goods and amounts received in settlement of credit for the purchase of goods, received additional profit due to those clauses.

On the other hand, cases are possible in which, as a result of various reasons (primarily currency restrictions), actual depreciation of currency is manifested only in the change of its purchasing power in relation to commodities under conditions of an unchanged official gold content and exchange rate. Thus, in the period from 1949 to 1958, the index of wholesale prices in the majority of the capitalist countries increased by 30% and more with a corresponding decrease in the purchasing power of their currencies, whereas at the same time the official gold content and exchange rate of the currencies of these countries (except Finland and France, which lowered their exchange rate in 1957) remained unchanged.

In similar situations the inclusion into the contract of gold or currency clauses does not serve its purpose. Under an unchanged official parity and currency exchange rate, these clauses are not able to compensate the exporters and the creditors for the losses resulting from the decrease in the purchasing power of the currency.

Protection from these losses may be obtained by the application of well known means of 1) index clause and 2) clauses on sliding prices.

The index clause stipulates that the price of the commodity and the sum of payment or sum of credit to be liquidated change in relation to the change in the price index at the time of payment stipulated in the clause in comparison with the base period of the time in which the transaction was concluded.

If a general index of wholesale prices is considered as such an index, and this index has increased, for example, by 10%, the commodity price and the amount of payment or the amount necessary for the liquidation of credit will increase proportionately, i.e., also by 10%. The index clause is in essence a clause regarding to the stability in the purchasing power of currency. It protects the exporter from a decrease in the purchasing power of the monetary proceeds from exports, and the creditor from a decrease in the purchasing power of currency received in liquidation of credit.

The index clause is almost never applied in international trade. The movement of indices frequently does not reflect the movement of prices of the concrete commodities



appearing as items in commercial transactions. The price of a concrete commodity can increase or decrease significantly while the price index remains unchanged.

The clause on sliding prices (the escalator clause) is a clause concerning the changes of the prices of the ordered goods, usually an industrial equipment in the event of a subsequent change in the price of individual production expenses of a given commodity (cost of raw materials, labor, etc.). The sliding price clause is advantageous to the exporters receiving orders for delivery of industrial equipment and other products with an extended time for manufacture, when a condition of rising prices exists on the market. For the same reason the indicated clause is not in the interest of the importers of the capital goods.

#### The Conclusion of Compensation of Barter Transactions

The conclusion of compensating transactions is similar in certain respects to the method of protection from currency risk indicated above by means of a simultaneous purchase for the same period of an import commodity for the sum due from the sale of an exported commodity.

The difference between a compensation transaction and that method of protection against currency risk is that in the compensation transaction a real transfer of money does not take place. The account is settled by appropriation of the amount due for the exported goods for payment for equally priced imported goods, bought during the conclusion of the transaction.

Because of the fact that the values of the export and import commodities, expressed in a single currency, are equal, the devaluation of the transaction currency at the moment of payment cannot cause the exporters any losses because the foreign currency with a lower rate maintains the same purchasing power which was determined during the conclusion of the compensation transaction as a mutually agreed price for the exported and imported goods. At the same time the exchange rate losses from the export operations is compensated by exchange rate profits from the import operation.

One of the peculiarities of compensation transactions is that the prices of the mutually exchanged commodities, appearing as the object of the given transaction, have a conditional significance. In compensation transactions it is the relationship between the prices of the export and the import commodity, not the absolute magnitude of these prices, that is essential.

The barter transaction can be analagous to the compensation transaction as a means of protection against currency risks. In the barter transaction a specified quantity

of an export commodity is paid with a specific quantity of an import commodity of the same value. In a barter transaction there are no money accounts. Money is here only a measure of value in the specification of the equivalent values of the goods.

Price Revision Clause. If the inclusion of a gold or currency clause in an international trade contract is neither expedient nor possible, then the inclusion of a price revision clause in the event of devaluation or other depreciation of the currency transaction can be a means of protection against the currency risk. This clause can be expressed approximately in the following form: In the event of devaluation of the currency in which the price of the commodity is established, the supplier will have the right to demand a revision of the price of the sold commodity by the buyer; in the event of disagreement with the buyer on the revision of a price or the failure to agree on the corresponding increase of price, the supplier will have the right to cease further supply of the commodity.

### 3. The Currency and Financial Conditions of Accounts In International Trade Operations with Countries in the Socialist Camp.

International accounts with the countries of the socialist camp constitute the predominant part of the international accounts of the USSR. In recent years about 75% and more of the total Soviet foreign trade has taken place with them.

International accounts of the USSR with countries of the socialist camp include international trade accounts, other types of economic cooperation, including credit relations, and cultural, scientific, and other relations not of a commercial nature.

The unique nature of the interrelationship between the countries of the world system of socialism is reflected in the area of currency relations of the USSR with the countries of the socialist camp. Economic relations between socialist countries, as indicated above, constitute relations between countries with the same type of productive relations. These relations are subordinated to the requirements of the economic laws of socialism. Thus all forms of exploitation of man by man are excluded not only within separate countries, but in the relations between these countries.

In the area of international accounts among socialist countries, as in the area of economic relations causing this accounting, the principles of equal rights of large and small nations, of mutual advantage, and brotherly mutual aid are in operation.

In connection with this, the currency and financial conditions and forms of accounts for international trade transactions between governmental trade associations of the USSR and other socialist countries do not depend upon the relation between the powers of the parties concluding these transactions, as is the case in the capitalist economy. They are not determined by the changes in the conditions of the world commodity market in which the prices and accounting conditions for either the exporters or importers are put into a more advantageous position.

The USSR and the other countries of the socialist camp utilize, in their international currency relations, the form and technique of international accounting that has been formulated in the practice of world capitalist trade. But in the relations among the socialist countries these form acquire a new economic content and fulfill a function of creating a more rational organization of mutual international accounts in international trade and other economic relations in the interest of the improvement and extension of economic cooperation between them.

In addition to this the socialist countries not only utilize in their currency relations the form and technique of international accounts that exist in capitalist world trade, but perfect these forms and techniques as well, creating new means of accounting in foreign transactions, which are unknown and unattainable to trading firms and banks of capitalist countries.

Account Currency Conditions. International accounts between the USSR and the countries of the socialist camp are conducted basically in the form of clearing accounts.

The currency conditions of accounts between governmental international trade associations of these countries have are characterized by the use of Soviet currency as the clearing currency upon which the agreements on commodity exchanges and payments or trading agreements between the USSR and the countries of the socialist camp are based. At the same time the price of the commodities supplied by these countries to each other and services rendered is established on the basis of the indicated agreements also in Soviet currency.

Thus the utilization of the ruble in international accounts of the USSR with countries of the socialist camp and of those countries with each other is based on voluntary, official agreement between the corresponding countries.

In connection with this the ruble is a currency for the expression of prices in international transactions, as well as a currency in which payments is made for the corresponding commodities. In other words, the ruble is a currency of payment or account.

The prices of commodities mutually supplied by the

international trade associations of the USSR and the countries of the socialist camp are established on the basis of the corresponding trade and credit agreements based on the prices prevalent on the principal world commodity markets. This means that the price basis reflects the international value of the corresponding commodities on the world capitalist market. The prices established in the contracts between governmental international trade associations of the socialist countries are in effect ordinarily for the period of an entire calendar year. In other words, the prices are comparatively stable despite the fact that within this year the world prices can undergo significant change. The revision of the prices within the given calendar year is not practiced as a rule. For the determination of prices in rubles, the prices at the basic world trade markets, mutually coordinated among the parties, expressed in foreign currencies, are recomputed into rubles according to the existing rate of exchange.

It is necessary to emphasize that the prices in the contract are not established mechanically or automatically. They are agreed upon by the parties with the observance of the general principle of price formation indicated above. This makes it possible to eliminate abrupt and temporary speculative fluctuations of prices characteristic of several commodities on the capitalist market.

The use of world capitalist prices as a base point is the most equitable method for the determination of prices in international trade between countries of the socialist camp under present conditions. World prices more or less reflect the spontaneously evolving international value of the appropriate commodities. On the other hand, the countries of the socialist camp are not isolated economically from the capitalist world market. They all conduct trade not only with each other, but with the capitalist countries which presupposes a single basis for prices.

One half of the expenditures for the delivery of the commodity from the place of the basic world commodity market to the place at which the commodity is received (the border railroad station or the port of unloading) is usually added to the basic price agreed upon between the appropriate socialist countries.

Amounts in rubles accounted for in the clearing accounts of the countries of the socialist camp in their central banks, like the prices of commodities expressed in rubles in private contracts between trading organizations of these countries, are not provided with either gold or currency clauses.

In principle it would be impossible to object to the fact that in the clearing agreements of the USSR with countries of the socialist camp, as well as of those countries

with each other, the clearing accounting unit and the price currency should be the ruble with an indication of its gold content (that is, with the gold clause). As the history of the currency relations of the USSR indicates, the gold content of the ruble changed twice - in 1936 and in 1950. Furthermore, because of the fact that the prices of commodities in the economic relations between the countries of the socialist camp are established on the basis of the prices of the basic world commodity markets, the ruble represents in these relations the purchasing power of gold on the world capitalist market.

The stability of international trade and credit demands and obligations are expressed in money cannot contradict the brotherly economic relations between the socialist countries. Of course this stability depends not only upon the stability of the gold content of the ruble but also on the stability of the purchasing power of gold represented by the ruble on the world capitalist market.

The absence of a gold clause with regard to the ruble in the currency relations with the countries of the socialist camp does not represent, however, the threat of possible losses in the event of a change in the gold content of the ruble. Under the influence, in the relations between the socialist countries, of the principles of full equality and mutual cooperation, which exclude any type of exploitation, the mutual requirements and obligations of the parties in the clearing and credit agreements and separate contracts between international associations can always be regulated amicably on a just basis.

Financial Conditions and Forms of Accounting. The financial conditions and forms of accounting in export and import transactions of state foreign trade associations of the USSR with the state foreign trade associations of the socialist countries, in contrast to the relations among the capitalist importing and exporting firms, do not have an antagonistic character. The interests of trading associations of the socialist countries during the determination of conditions and forms of accounting on mutual trade transactions are not contradictory.

In connection with this, such forms of accounting as the collection account and the letter of credit account are not required in relations between trading associations of the socialist countries for the purpose of protecting exporters against the risk of losses due to non-payment for the commodity by the buyer as a result of bankruptcy, inability to pay, bad faith, or from the risk of unacceptance of the commodity by the buyer because of an unfortunate change in circumstances, such as those that take place in capitalist countries. Risks of this type are

practically non-existent as the foreign trade organizations are enterprises in a socialist state which conduct foreign trade on the basis of monopolies and a national economic plan. The possible cases of unfulfillment of mutual obligations by state foreign trade organizations can always be amicably resolved among the appropriate states.

In connection with this individual forms of accounting evolved through practice in the capitalist world trade receive a different economic content in the relations between socialist countries. They attempt to attain a fundamental goal of influencing the trade organizations of both sides to maintain the delivery deadlines and payments and thus aid the rate of turnover in the import and export operations and the absorption of the international trade commodities into the national economy of each country.

Cases of commercial credit were encountered, i.e., the extension of commercial credit to those countries in the first years of development of trade relations of the USSR with the countries of The People's Democracies when private firms and cooperative organizations still participated in the foreign trade of these countries and state credit relations with these countries had only begun to be developed.

At the present time commercial credit, as one of the forms of accounting in international trade, is no longer applied in the relations of the USSR with countries of the socialist camp. This is explained by the fact that the USSR grants these countries economic aid in the matter of socialist reorganization of their economies. This is accomplished by the extension to the nations of the People's Democracies of direct government credit through which industrial equipment and other commodities are paid for by these countries. Therefore, the extension to state trading organizations of the socialist countries additional commercial credit would mean in many cases double and parallel credit. Necessary turnover funds for the maintenance of the process of commodity circulation are received by international trade organizations of these countries in the form of credit in their home state bank.

Short-term crediting of socialist countries is provided in certain cases, not by the extension of commercial credit, but by allowing clearing indebtedness beyond established technical credit (see page 71).

In the first years after the capitalist system withered away in the present countries of the socialist camp, when the fundamental socialist reforms had not been conducted in these countries, Soviet foreign trade organizations utilized credit and collection forms of accounting in trade relations with these countries as a certain type of

a guarantee against losses resulting from the non-fulfillment or late fulfillment of contracts by firms and organizations in these countries. The collection form of accounting was of the same nature as the original collection account in the world capitalist trade.

In trade with certain countries of the People's Democracies the credit form of accounting predominated, and with others the collection accounting was predominant. However, the rule that the forms of accounting in export and import operations with the corresponding countries had to be similar, was observed.

Besides this the conditions of these accounts assumed a standardized nature. This standardization was later expressed in the unified conditions and forms of accounting, stipulated in the protocols on the general conditions of delivery, concluded with these countries, as recommended by the Council of Economic Mutual Assistance. The similarity in the conditions and forms of accounting concerning both exports and imports was derived not only from the principle of equal rights of the parties concluding payment transactions, but also from the fact that the other parties in these trade transactions were not private firms and enterprises of varying credit ratings and business responsibility, but state foreign trade organizations which are subordinate to the national economic plan. The ability of these organizations to pay could not be doubted.

The same forms of accounting in export and import operations made it possible not to violate the equilibrium of the balance of payments in clearing agreements due to the application of different forms of accounting.

Since the middle of 1951 the collection form of accounting has become the leading form, stipulated as the basic form of accounting. This has been provided for in the protocols on the general conditions of delivery. This form, however, differs from the common collection form in that the shipped commodities were sent directly to the buyer and could be put at his disposal even before payment for the cargo documents.

Such form of collection, unknown in the practice of capitalist trade, aids in speeding up the process of commodity circulation and results in decreasing expenditures for storage in the warehouses of the transport organizations.

In addition to the collection form, the letter of credit could be applied when individual trade transactions so required.

The disadvantage of the collection form for the exporters and the advantage to the importers was ironed out due to the condition of an approximate equality in the values of the mutual reciprocal deliveries of the trade relations

between socialist countries in which both socialist countries were simultaneously the exporter and the importer for approximately the same amount. However, individual foreign trade organizations concerned only with export operations were at a disadvantage in comparison with their counterparts -- the importers. The tendency to perfect this form in such a way that both sides were in the same position developed from this. For this it was necessary to remove the unfavorable aspects of the collection form for exporters while preserving the beneficial aspects of the collection form for importers.

An appropriate form of account for this goal was worked out by the State Bank USSR and the central banks of several socialist countries. It received the designation, "collection with immediate payment". In several countries it is called general letter of credit. Its distinguishing features do not fully resemble the letter of credit or the actual collection form.

From the second half of 1954 collection form with immediate payment has been applied in accounting between the Soviet foreign trade organizations of all countries of the socialist camp.

In December 1957, a CEMA committee for foreign trade evolved refined general conditions for the exchange of goods, which stipulated the order of payment in the form of collection with immediate payment (§35-45). The new form of accounting applied in both export and import operations (similar conditions of accounting) consists of the following:

The foreign trade organization - the exporter, having shipped the commodity to the address of the foreign trade organization of the importer, presents the set of cargo documents to the central bank of his country (in the USSR, the State Bank USSR). In this the seller bears full responsibility for the conformance of the presented documents and their data to conditions of the contract. After the verification of the conformance of the cargo documents among themselves in content and given figures, the bank pays the exporter the amount of the bill and debits the appropriate amount in the clearing account of the bank of the buyer's country and immediately sends them to his address along with a notification of the payment made.

The bank of the importer's country, having received the documents and the notification, credits the clearing account of the bank of the exporter's country for the amount paid and debits the account of the importer. At the same time it releases the cargo documents to the buyer. Thus, with this form the cargo documents are transferred to the buyer only after payment. Although the commodity is shipped to the address of the buyer, but usually arrives after payment for the cargo documents.



The documents which are presented by the exporter of the commodity to his bank are as follows: 1) not more than 3 copies of the bill, 2) shipping documents, and 3) other documents stipulated in the contract.

If stipulated in the contract, the bill may include, beside the cost of the commodity itself, the cost of freight, insurance, and other expenses which may be settled through clearing according to the trade agreement.

One of the copies of the bill, with the concordance of the buyer, is presented by the seller to the trade adviser (or trade representative) of the buyer's country in the seller's country, either through the bank, or directly.

Within fourteen business days, beginning with the day of receipt of the bill by the importer's bank, the latter has the right to demand the repayment of all or part of the amount out of its account. This is a repayment, not the rejection of the bill, because the total bill has already been paid.

I. The right to demand the repayment of the entire sum incorrectly paid on a bill by the seller's bank exists if, 1) the commodity was not ordered or was shipped despite the annulment of the contract with the agreement of the seller 2) the commodity was already paid for earlier 3) if all the mandatory documents were not presented 4) the equipment is not shipped as a complete unit, although by contract the payment provides for the complete shipment 5) the shipment of the commodity takes place earlier than the date stipulated in the contract without the agreement of the buyer, or if before the date of the delivery the buyer received payment for the commodity and the buyer had agreed to the early shipment, having advised his refusal to make a premature payment, 6) the seller shipped the commodity after receiving a rejection by the buyer of the contract, 7) the documents attached to the bill show discrepancies that prevent a determination of the quantity and/or type, and/or quality, and/or cost of the commodity, 8) the detailed price list or evaluated specifications stipulated in the contract are not attached to the bill, and 9) other circumstances stipulated in the contract.

II. The right to demand partial repayment of sums paid on the bill exists if 1) the bill includes prices exceeding those stipulated by contract or if the bill includes expenses that were not stipulated in the contract, 2) along with the ordered commodities, unordered commodities are shipped as well, 3) the buyer refuses to accept part of the shipment because the assortment stipulated by the contract was not shipped, 4) the shipped quantity of the commodity exceeds the ordered quantity, the excess, in addition, is above that allowed by the contract, 5) the quantity of the commodity indicated in the bill exceeds the quantity indicated

in the cargo documents and/or the specifications, 6) an arithmetical error is discovered in the bill or the attached documents, in favor of the seller, 7) other conditions are stipulated in the contract.

With the presentation of a request for full or partial repayment of the amount paid for the seller's bill, the buyer must present to the bank of his own country a statement showing the motivations and reasons for it along with a copy of the statement for its remittance to the seller.

Upon the demand of his bank the buyer is obligated to present to it the necessary documents substantiating the correspondence of the motives cited by the buyer with the contract conditions stipulating the right to request partial or complete repayment of the paid accounts.

Under appropriate circumstances the buyer must indicate in his statement that the unaccepted commodity is being held at the disposal of the seller at the risk and expense of the latter.

If the demand for full or partial repayment is in agreement with the conditions giving the buyer the right to demand repayment of sums charged against him, the bank of his country immediately restores the sum by writing off the commodity from his account and immediately debiting the clearing account of the bank of the country of the seller. The buyer's bank then sends him a copy of the buyer's statement.

Upon repayment of the full sum paid on the bill the buyer, upon demand of the seller is obligated to return the cargo documents received by him concerning the given shipment of commodities.

After the restoration by the bank of the charged sum to the account of the buyer all differences between the buyer and the seller are resolved directly.

If the buyer acknowledges, or it is established by arbitration, that on a basis of his request he was unjustifiably refunded the paid sum, then, apart from the payment of this sum, the buyer must pay a penalty of 0.1% of this sum for each day of delay beginning with the day of repayment of the sum to the day of the final payment, but not to exceed 5% of the unfounded repayment.

Such a type of account as collection with immediate payment is used with reference to expenditures on the delivery of commodities which include expenditures on assembling, design and preparatory work, and transport expediting services, if these expenditures were not included in the bill for the commodity.

Accounting is accomplished with immediate payment on the basis of the bill and other documents, coordinated among the countries which are presented by the creditor to the bank of his country.

In this account, as in the commodity account, the creditor (giving the services) carries full responsibility for the fact that documents presented to the bank and the date contained in them or the bills presented without documents correspond to the agreement with the debtor.

The debtor has the right to demand payment of all or part of the sum paid within a twenty-four working day period beginning with the day on which the bill of the creditor is received by his country's bank.

I. The right to request repayment of the entire sum exists if 1) there is an absence of a request for agreement on the services, or if the request is cancelled before the services are rendered, 2) if the services have been paid for earlier, 3) all the documents agreed upon among the parties are not presented, or in the documents presented it is impossible to determine which services were rendered, 4) other circumstances have taken place due to which it has been agreed that there is a right to request repayment.

II. The right to demand partial repayment exists if 1) arithmetical errors exist in the bill or the attached document, 2) higher tariffs, and/or rates are included than those agreed upon between the parties, 3) there has been an improper use of the rate of exchange, 4) services levies, commission charges and additions are not agreed upon by the party have been included in the bill, 5) the total amount of the bill is calculated on the basis of incorrect data on the quantity, weight, and volume of commodity, 6) along with the cost of the fulfilled services, the value of unfulfilled and/or partially fulfilled services are included in the bill.

In the event of repayment to the debtor, the return of the documents takes place by coordination among the parties.

In accounts for services and other expenditures the same conditions are applied as those in accounts for commodities.

Payments for claims regarding quantities, qualities, fines and other complaints take place by means of a) the direct transfer to the creditor of the agreed sum of the debtor or b) payments by the bank of the creditor's country in the form of direct payment of the agreed sum to the debtor on the basis of his credit note.

Under special conditions for delivery of goods in the contracts among the foreign trade organizations of the socialist countries the letter of credit form of accounting may also be stipulated.

In this case if the letter of credit is not initiated by the buyer within the time established by contract the latter then is obligated to pay the seller a penalty in the amount of 0.5% for each day of delay, but not to exceed 5% of the total amount of the letter of credit. The seller is obligated to allow the buyer an additional period of time

to initiate the letter of credit, without at the same time losing the right to charge penalties.

In a case where a letter of credit is not opened within the additional time allowed the seller has the right to cancel the contract. In this case he may receive either a fine or a forfeit charge in the amount of 3% of the total amount of the letter of credit from the buyer if another forfeit charge is not defined in the contract.

In case of a delay in the initiation of a letter of credit the seller has a right to withhold shipment of the commodity. If the commodity has been shipped by the seller before the letter of credit is initiated, even though the letter of credit is late in terms of the agreed deadline, the bank of the seller's country receives documents for payment in the form of the ordinary collection amount.

The new form of accounting with countries of the socialist camp on export, import, and transport expediting expenditures examined above which is the collection with immediate payment form aids in significantly increasing the turnover of funds invested in the indicated operations. In contrast to the typical type of collection accounting in which a delay in payment for goods and services for the period of the transfer, verification and payment of the documents in question of ten days takes place with the new form the total bill of the exporter is paid directly and is immediately exacted from the importer. In addition, the importer has the right to demand repayment of sums incorrectly exacted by the exporter without the delay for necessary proof for the bank.

The application of the collection form with immediate payment is possible only in trading relations among the socialist countries. It is unknown, therefore, in the practices of capitalist banks. For its successful functioning, this form of accounting stipulates an adequately high level of agreement discipline by the foreign trade organizations of both parties, a close observance by both sides of conditions of deliveries and payments in which cases of requests by the importers for the repayment of incorrectly charged amounts in favor of the exporters are rare. In practice, the relations among foreign trade organizations of socialist countries which are based upon mutual trust and a non-antagonistic nature, such claims are only rarely encountered. This might explain the general recognition of this new form of accounting by socialist countries and the fact that it has successfully functioned for already more than four years.

Apart from the positive aspects indicated above, the new forms of accounting make it possible to eliminate internal credits for the foreign trade organizations for export operations, and significantly decreases the technical work of

these organizations and banks in servicing foreign trade accounts among the countries of the socialist camp. In addition, because of the new forms of accounting, the clearing account has come to reflect more precisely the composition of foreign trade circulation between the USSR and other countries of the socialist camp.

Accounts in various types of non-trade relations between the USSR and these countries also play an important role in the currency relations of the USSR with the countries of the socialist camp. The main forms of accounts in non-trade payments are at the present time the monetary transfers and the ordinary and traveller's checks of the State Bank USSR in rubles. The introduction in 1955 of travelers' checks by the State Bank USSR and banks of a series of socialist countries is instrumental in a faster and more flexible service to tourists and other categories of individuals arriving from the socialist countries to the USSR, and also to Soviet tourists and other citizens traveling from the USSR to those countries.

#### 4. Currency and Financial Conditions of Accounts in Foreign Trade Transactions Between Firms and Organizations of the Capitalist Countries

The financial conditions of accounting in the foreign trade of the USSR with the capitalist countries in operations at the present time are the result of a struggle of many years by the Soviet foreign trade organizations for the improvement of general conditions of accounting, and the financial aspects of these conditions as well.

The struggle of the capitalist countries against Soviet foreign trade in the financial area was manifested not only in the gold and credit blockade of the Soviet Union by the capitalist states and banks, but in the attachment to Soviet foreign trade organizations of the most inconvenient and circuitous conditions of cash accounting.

During the first years of the emergency of the Soviet Republics into the foreign markets, foreign firms and banks required a preliminary gold or currency guarantee of payment on orders for equipment or a full payment for the commodity before shipment to the USSR. Foreign firms agreed to pay for commodities purchased in the USSR only after their arrival abroad and placement at the disposal of the buyer. Only gradually, after a constant struggle by the Soviet export organization, was it possible to extend to basic commodities of Soviet export the generally accepted conditions of accounting in international trade.

As a result of attainment of technical-economic independence by the USSR, the Soviet foreign trade organizations were able by 1935 to attain a significant improvement in the

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financial conditions of accounting in exporting and importing. One of the significant improvements was the transfer of a significant part of accounts in foreign trade of the USSE to within the Soviet Union, particularly in Soviet exports to payment with letters of credit initiated by foreign buyers in favor of Soviet foreign trade associations in the State Bank USSR, or if the letter of credit is issued by a foreign bank, then payment on the State Bank USSR.

Agreements on the general conditions of delivery in which various financial conditions of accounts are provided for were concluded with individual countries. Examples of this are the agreements for the general conditions of deliveries from Germany applied until the Second World War and in the active agreement on the conditions of delivery concluded with the Union of Swedish exporters. The agreement of the USSR with Great Britain as of 1936 on the extension to the Soviet Union of financial credit for payment of Soviet purchases in Great Britain, specified conditions of cash accounting in transactions of foreign trade associations with British firms were provided for.

For several mass export commodities of the USSR, such as grain and forest products, a decisive role in the definition of conditions of accounting was played by the accepted standard conditions of contracts in international trade worked out by associations of exporters of these commodities of separate countries.

One of the advantages of the socialist economy in the area of international accounts is the fact that the Soviet economic organizations enter the foreign markets in coordination because of the state monopoly of foreign trade.

It should be noted that among the capitalist firms having traded with the USSR, attempts at combining and the creation of special monopoly organizations for trade with the Soviet Union were attempted. Under conditions of violent competitive struggle, these attempts did not lead to the results desired by their creators. Beside this, the agreement among private firms designed to create discriminatory conditions in trading with the Soviet Union always met proper rebuff from the side of Soviet foreign trade organizations by their ceasing business relations with the appropriate firms.

The struggle of the capitalist world against Soviet foreign trade extended also to the area of financial conditions in accounting and did not cease after the conclusion of the Second World War. It assumes various new forms. In particular, the policy of obvious discrimination and the disruption of foreign trade with the USSR provoked by the leading circles of the USA and several other capitalist countries are to be noted.

The discriminatory policy conducted by the USA and a

series of other capitalist countries is utilized by individual capitalist firms to force upon Soviet foreign trade organization disadvantageous and burdensome conditions of cash accounting in the sale and purchase of commodities.

At the present time the Soviet Union has achieved the greatest economic power. As a result of this the position of Soviet foreign trade associations in the conclusion of trade transactions with capitalist countries has become immeasurably stronger than it was formerly.

Foreign trade associations of the USSR are organizations in which the ability to pay is not subject to doubt. They have every right to insist on special financial conditions of accounting in contrast to the conditions applied in international trade to private firms.

Soviet foreign trade organizations should therefore continue their struggle for the improvement of currency and financial conditions of accounting concerning export and import transactions concluded by them.

For separate Soviet commodities enjoying a significant demand in the world capitalist market, the Soviet foreign trade organizations are able to work out their special standard conditions of accounting, in contrast to the conditions of accounting manifested in the practice of capitalist trade.

In the foreign trade of the USSR with the capitalist countries all the indicated types of accounting have been applied in the past. In particular, during the period of 1923-1934 credit account accounts in the export, as well as import, operations of the USSR had wide application. This question is examined in greater detail in chapter VII which is devoted to the history of the USSR's credit relations with foreign governments.

At the present time credit accounts are applied only in isolated cases. Soviet foreign trade organizations extend commercial credit primarily only in the sale of industrial equipment and several other commodities to the buyers in underdeveloped countries (see below). In other cases export and import goods are usually sold to and bought by foreign trade associations as a rule thorough cash accounting only. The only exceptions are only cases when the Soviet exporter receives advance payments from the foreign buyers. These advance payments serve primarily as a means of insuring the fulfillment of the agreement by the buyer, and not as a means of financing export operations, i.e. somewhat similar to a deposit. Exceptions to this also are cases in which Soviet firms extend advance payments to foreign suppliers on orders for complex equipment, naval ships., etc. as well as the delivery by Soviet exporters of industrial equipment and certain other commodities to firms and organizations of the economically underdeveloped capitalist countries

with deferment of payment in specific cases.

Currency conditions of Payment in Export and Import Transactions. Commodity accounts with capitalist countries are conducted by foreign trade associations of the USSR in foreign currencies. The exception is Finland, with which accounts are conducted by clearing agreements in rubles with an indication of their gold content. At the same time the foreign currencies are currencies of the clearing accounts in the agreements concluded by the USSR with many capitalist countries on commodity exchanges and payments, and special payment agreements, to include those of a non-clearing nature.

The currency conditions of payment acquire considerable significance in the conclusion of contracts by foreign trade organizations of the USSR with firms and enterprises of the capitalist countries on the purchase and sale of commodities.

At present when not one capitalist currency may be considered durable and stable, the Soviet exporter to the capitalist countries can be threatened by losses resulting from the reduction of the parity and rate of exchange in which the price of the commodity is expressed. They can incur losses also as a result of new currency restrictions. The best way to protect the exporters from losses resulting from blocking their currency proceeds in banks of countries with currency restrictions is to make clearing agreements with these countries. This is discussed in greater detail in the following chapter.

The risks resulting from the reduction of parity and the currency rate of exchange increase as the interval of time between the conclusion of the contract with the importer and the date of receipt from him of payment for the commodity becomes greater.

As indicated in Section II, one of the most common methods of protection against currency risk is the inclusion of a currency or gold clause in the contract with the importer.

The variant of the currency clause in the form of the establishment of the price of commodities sold in a more stable and freely circulating capitalist currency with payment in the national currency of the buyer can have great significance.

In circumstances where accounting with buyers of export commodities takes place in a freely convertible currency, it is expedient as a general rule to establish prices of the commodities in the contract in that currency to avoid unnecessary conversion of the price currency into the payment currency. With this as a goal it is possible to recommend the establishment of the prices of the commodities in the same currency in which, according to the given commercial payment agreement of a non-clearing type, is stipulated as a



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payment currency.

The establishment of prices of the commodities in the indicated currencies does not exclude the possibility and expediency of the inclusion of gold and currency clauses in the contracts when concrete conditions demand.

In order to avoid losses from devaluation it is expedient for Soviet exporters to include gold or currency clauses even in those cases where such clauses are included in inter-governmental clearing agreements. These clauses apply only to the balances of the clearing accounts and do not protect, therefore, the interests of the exporters in those contracts which will not be entirely completed by the moment of devaluation.

In those cases in which the price of the commodity is established in a currency that is different from the clearing currency or of the commercial payment agreement of a non-clearing nature, it is necessary to indicate in the contract the conversion rate of the price currency into the payment currency. If this rate of exchange is stipulated in the appropriate payment agreement of the USSR (for example, with the Netherlands, the Belgium-Luxembourg economic Union, with Switzerland, France, and others) then the conversion rate in a contract should not differ from the exchange rate indicated in the given payment agreement. The following rates of conversion are theoretically possible: 1) parity, 2) an intermediate rate between the rate of the sellers and buyers, 3) in export - the rate of the sellers, in import - the rate of the buyers (with direct quotation), 4) the rate of the sellers for export and import. For Soviet exporters the most advantageous rate of exchange is the seller's rate (with direct quotations).

In those cases where the importer does not agree to the inclusion in the contract of gold or currency clauses, the Soviet exporters may apply other means of protection from currency risks as indicated in section II. The most convenient measure at the present time may be the inclusion of clauses on the revision of prices of the goods sold and the release of the exporter from treaty obligations if the devaluation of the currency in which the price of the commodity has been established takes place and the buyer does not agree to pay a correspondingly higher price for the commodity.

In Soviet import trade with capitalist countries, the prices of the goods bought are established in contracts with foreign suppliers are ordinarily stated in the domestic currency of the supplier and the payment of the commodity takes place in that currency. In other words, the transaction currency and the payment currency are the same.

Such currency conditions are explained by the fact that the international accounts of the USSR are conducted

with almost all capitalist countries in foreign currency, not Soviet, and the foreign suppliers usually prefer to receive payment in their own currency because this frees them from expenditures connected with the conversion of a foreign currency into their own domestic currency. On the other hand, in view of the currency restrictions existing at the present time in many capitalist countries, and also after the establishment at the end of 1958 of a partial convertibility of the main Western European currencies, the proceeds from Soviet export in these countries in local currency can be utilized by the USSR for the purchase of commodities and other expenditures only in the countries of the given currency.

The domestic currency of the supplier is as a rule the price currency and the payment currency also in import transactions concluded with foreign trade associations of the USSR on the basis of inter-governmental agreements on commodity exchanges and payment with capitalist countries. In most agreements of this type the clearing accounts are conducted in the domestic currency of the country with which the agreement is concluded.

If under conditions of the transaction the payment is made in a currency which does not coincide with the price currency, then it is necessary to stipulate in the contract the rate of exchange at which the price currency will be converted to the corresponding payment currency. For the Soviet importer the most advantageous rate of exchange is the exchange rate of check buyers in this currency.

Soviet importers are not interested in the inclusion in contracts with foreign suppliers of either currency or gold clauses, since the risk of an increase of the exchange rate of foreign currencies in which the price of a purchased commodity is established under the conditions existing in the capitalist world of currency instability is minimal, whereas foreign suppliers of several capitalist countries, fearing devaluation of their own currency, may sometimes present the question of the inclusion in the contract of currency or gold clauses or the establishment in the treaty of sliding prices (escalator clause).

Such requests are presented sometimes by suppliers in negotiations on orders for industrial equipment with long-term conditions of delivery.

The inclusion into contracts of gold or currency clauses may lead in the case of a devaluation to an unfounded enrichment of the supplier and unjustified losses for the buyer of the equipment. With the presence of a gold or currency clause the Soviet importer would be obligated to pay an increased amount for the commodities, in excess of that stipulated in the contract, in case of a de-evaluation of the currency, by as many percent as the "price" of gold

or the rate of exchange of the stable currency has increased with relation to the seller's domestic currency. Furthermore, in reality, the prices of industrial equipment, in contrast to prices of raw goods and trade goods that are more susceptible to currency fluctuations and changes, increase slowly and significantly less than the dropping rate of exchange of the exporter's currency.

Gold and currency clauses do not ordinarily apply to raw materials and trade goods, except in cases in which an extended period of time elapses between the conclusion of a contract and its fulfillment.

The inclusion in contracts for the supply of industrial equipment, ships, and other objects with an extended period of manufacture of a sliding price clause as a means of protection against currency risk for the supplier is not advantageous, as a rule, for the Soviet importer: the increase in the wage rates and prices of raw materials which are the main objects of the escalator clause do not always lead to an increase in production expenses per unit of production, i.e. to an increase of the net price. In this type of clause only the influence of the increase factors are considered and all situations which counteract the increase in the production costs are ignored. Beside this, the loss to the importer inflicted by the system of sliding prices is usually aggravated by an exaggeration in the sliding formulas of the average cost of wages and raw materials and the minimization of the fixed costs. In the fixed portion of the price it is absolutely necessary to include the overhead expenditures, which include administrative costs, depreciation, and profit.

In the issuing of orders for complex equipment and ships it is necessary to consider also the advance payments by the customer to the supplier which gives the latter the opportunity to protect himself against the possibility of an increase in prices for materials.

The Soviet importer is able to protect his interests with the sliding price clause by the establishment of defined limits of variation, that is, a maximum limit which he will pay above the basic price.

Accounting in Export Operations. Soviet foreign trade associations entering into trade relations with capitalist countries as exporters deal primarily with private enterprises whose ability to pay depends not only upon the solidity and good faith of the appropriate firms, but also on the changes in the anarchical conditions which are in the very nature of the capitalist economy.

Soviet exporters must therefore provide in the contracts concluded by them the necessary measures to protect themselves not only from losses resulting from possible depreciation of the currency in which the price of the

commodity is expressed, but from the risk of losses in the event of bankruptcy, inability to pay, or the lack of good faith of the foreign buyer which are private capitalist enterprises.

Thus, in conclusion of export transactions, Soviet foreign trade associations should stipulate in contracts with foreign buyers those financial conditions of accounting that will protect them from 1) the risk of non-payment by the buyer of the received goods, 2) the risk of non-acceptance by the buyer of the sold commodity, or non-redemption of the cargo documents for the shipped commodity.

In addition, Soviet foreign trade associations should strive also to provide the fastest possible returns from the exported goods, and also to minimize expenditures connected with given forms of accounting.

Those same basic forms of accounting - open account, collection account, and letter of credit - which are applied in international capitalist trade are also forms of cash accounting for both export and import operations of the USSR.

Due to its inherent deficiencies from the point of view of the interests of exporters, the open account form is allowed in Soviet export trade only in special circumstances.

Such special circumstances are the sale of commodities on consignment, on account with brokers, and also in cases in where the importer is a governmental organization of a foreign state.

In comparison with the open account, the collection account is more advantageous to the exporter. Under the collection form of accounting the Soviet exporter endorses the delivery and insurance documents to the order of the State Bank USSR and forwards them to the State Bank for collection. State Bank transfers them to its correspondent in the appropriate country for collection of payment. The correspondent of State Bank transfers the documents to the importer, or to a person indicated by him or to his bank only after payments for the value of the commodity indicated in the documents is made.

In this form of account the risk of non-payment for a commodity received by the buyer is evaded, but the risk of non-acceptance of the commodity by the buyer or person indicated remains. The buyer, as a result of several reasons, (for example: A change in market conditions causing a decrease in the price of the commodity) may consider the purchase of the documents to be disadvantageous to himself. As the commodity in such a case has not yet passed into the possession of the buyer, the losses of the Soviet exporter are restricted only to the expenditures of return shipment if it isn't possible to sell that commodity on the given market or to losses in price as a result of the sale of that commodity on the market at a price lower than that of the invoice price.

With the aim of receiving compensation for losses resulting from the non-purchase of the documents within the time specified, foreign trade associations stipulate in treaties under the collection form of account that fines be paid by the buyer for the non-purchase of the invoices within the time specified.

When export goods are sold under the open account or collection form of account, the means of protection from risk of non-payment for the commodity in the first case and non-purchase of the invoices in the second case may be: 1) the receipt of a deposit from the buyer, 2) a bank guarantee for the full and timely payment to the buyer for the commodity or documents, and 3) in the sale of a commodity through a broker: the receipt of a guarantee from the broker.

The importer must agree to send a deposit either at the moment of the signing of the contract or, in any case, before shipment by the exporter to the first party of the sold commodity.

The advance payments or deposits are officially non-percentaged charges and do not bear interest. This does not exclude the possibility, however, that the importer may calculate an interest as part of the price of the commodity.

A bank guarantee protects the exporter from the indicated risks only under the condition that sufficiently full and comprehensive responsibility of the bank for payment by the importer for the documents within a stipulated time period is provided as a guarantee. A foreign bank providing such a type of guarantee should be first rate.

With a sufficiently full, clear and precise formulation of the obligations of the bank, the bank guarantee for payment in a collection form of account may be equal, from the point of view of securing the interests of the exporter to a guarantee given the exporter by the irrevocable letter of credit. For the importer, the bank guarantee of payment for the documents is a cheaper form of accounting than irrevocable letter of credit because the commission for the guarantee of the bank is less than the expenditures connected with initiating an irrevocable letter of credit. Expenditures for this commission are carried, as a rule, by the importer - the buyer of the commodity. The collection form of account with the bank guarantee is encountered in the sale of certain commodities and in the practice of Soviet export trade.

The guarantee of the broker is a type of guarantee applied only when the given commodity is sold through a broker. In this case the broker issues the guarantee for the payment within a specified time on the part of the buyer.

It is necessary, however, to take into consideration

That the guarantee of the broker has only limited significance. It provides only for the payment by the buyer for each separate delivered order of the commodity, and not for the fulfillment of the entire contract with the broker.

The letter of credit form of accounting protects the Soviet exporter both from the risk of non-payment for the commodity received by the buyer and from the risk of non-purchase by him of the shipping documents. In contrast to the open account collection forms of accounting, the irrevocable letter of credit gives the exporter the full guarantee of the receipt of payment for the commodity the moment the documents are presented to the bank. Therefore, the letter of credit form of accounting guarantees the earliest receipt of payment from the exporter.

Even more preferable than the letter of credit form of accounting is the payment by the buyer for the commodity at the moment the contract is concluded or payment to the exporter during shipment of the commodity, that is even before the buyer receives the commodity. With this form of accounting, the exporter also does not run the risk of the non-payment for the commodity or the non-purchase of the shipping documents by the buyer, and the proceeds from export are received even before the shipment of the commodities, that is, earlier than with the credit form.

The basic and most widespread form of accounting in export operations of the USSR with the capitalist countries is, at the present time, payment by the irrevocable letter of credit initiated by the buyer or his bank at the State Bank USSR or in a first rate foreign bank.

The irrevocable letter of credit should be initiated at a certain time before the shipment of the commodity. Soviet exporters should not ship the commodity before receiving a communication from the bank that a letter of credit has been initiated in their favor and agreement of the exporters with its conditions.

Various dates for issuing letters of credit are encountered in Soviet import and export practice: a) at the time of signing, or within several days after the signing of the contract with the exporter on the purchase of the commodity; b) within a specified term, for example, 45 days, before the shipment of the commodity by the exporter; c) by a specified date, for example, 5-10 days, before the beginning of the month of shipment of the commodity, depending upon the value of the commodity that is to be shipped during the given month; d) within several days, for example, 5 days, after receipt of a communication from the exporter on the readiness of the commodity to be shipped; e) simultaneously with the issuance of the order by the buyer for the shipment of the commodity, and others.

Soviet exporters are interested in the earliest

possible issuance of a letter of credit in their favor in order to have sufficient time to prepare the goods for shipment. The date of initiation of a letter of credit depends therefore, on the character of the commodity, conditions of its concentration in ports, and transport conditions.

The untimely opening of a letter of credit by the buyer leads to specific losses for the exporters because of the necessity to store the commodity, a slow turnover in funds, and other expenses. Therefore in treaties with buyers Soviet exporters should stipulate fines for lateness in issuing letters of credit and the right to refuse delivery of a commodity if this lateness exceeds the specified number of days.

Another condition which should be stipulated in the letter of credit form of accounting is the term of the letter of credit. The term of the letter of credit should be sufficiently long so that the exporter will have the opportunity to ship all the goods sold on contract and submit to the bank for payment the shipping documents. The term of the letter of credit is established depending on the character and quantity of the sold commodity, the date of delivery, and the conditions of its transportation. In Soviet export trade with capitalist countries the letters of credit are used by foreign buyers for a term of 45-60-75-90 days, depending upon the commodity and the importer's country.

The letters of credit are always limited to a definite sum corresponding to the invoice value of the commodity, the conditions of delivery, and other expenditures to be paid by the letter of credit. Therefore, the bill for the commodity should not exceed the total of the letter of credit because the bank by which the letter of credit was issued may not pay such a bill.

Payments against the letter of credit takes place after the presentation of the shipping documents, stipulated in the letter of credit, to the bank which issued the letter of credit.

The minimum set of shipping documents against which payments are made from the letter of credit in Soviet export and import trade where the goods are transported by sea or railway are composed of: a) the marine bill of lading or duplicate of the railroad invoice; b) the insurance policy or certificate (always in "SIF" sales and sometimes in "FOB" sales, when the insurance is purchased on request of the buyer by the shipper); and c) the bill-invoice. Besides this, depending upon the type of commodity, the country where the goods are shipped and other circumstances other documents may also be required for payment through the letter of credit, such as shipment specification and a quality

certificate, a consular invoice, the bill of exchange, and receipt authorization.

The banks paying against letters of credit adhere precisely to all the conditions of the letter of credit. Therefore, the exporter should make certain that the cargo documents presented to the bank should comprise a full complement of documents as regards, copies, content, and their compliance to the conditions indicated in the letter of credit. Any possible deviations from these conditions should be especially agreed upon earlier. Thus, for example, in contracts with foreign buyers on the sale of certain Soviet export commodities at "FCB" it is sometimes stipulated that in the event a ship chartered by the buyer does not arrive on time to a Soviet port, the exporter has the right to receive payment through the letter of credit account against the so-called formal invoice. After the arrival of the ship and the shipment of the commodity, the exporter is obligated to transmit to the bank the original consignment documents in lieu of the formal invoice.

In the letter of credit form of accounting it is necessary to stipulate in the contract the bank which will issue the irrevocable letter of credit in favor of the Soviet exporter. The assurance of payment for the commodity, the promptness of returns from the export transaction and consequently, the rate of turnover of the funds invested in the export operation depend upon this.

In Soviet export trade with capitalist countries, letters of credit are initiated by foreign buyers both in the State Bank USSR and in foreign banks. Payments on the letters of credit initiated in the State Bank are the predominant form of accounting.

Soviet exporters are guaranteed to a greater extent not only of the receipt of payment, but a faster receipt of export proceeds, in that they receive payment for their bills almost immediately after shipping the commodity. Such a type of account aids in hastening the rate of circulation of the resources of the foreign trade associations (ob"yedineniye).

In situations where letters of credit are initiated in favor of foreign trade associations or the State Bank USSR in foreign banks, the Soviet exporters should insist that letters of credit be initiated in a first rate bank. It is preferable to agree with the buyer on the initiation of a letter of credit in a specified bank. In that case it is stipulated in the contract that the letter of credit will be initiated in a particular bank. If it is impossible to establish beforehand a particular bank in which the letter of credit will be initiated, it is necessary to agree that the letter of credit should be initiated in a first rate bank which will be agreed upon in the future by the exporter and the buyer.



A first rate bank in a given case is understood to be foreign banks which are correspondents of the State Bank USSR or those which have been approved by the State Bank for issuing letters of credit.

When letters of credit are initiated in foreign banks, the rate at which receipt from proceeds from the exports depend upon the conditions of payment through the letter of credit account.

Two varieties of letters of credit initiated by buyers in foreign banks are encountered in the practice of accounting for Soviet export.

According to conditions of some letters of credit payment for the commodity, that is, the crediting of the invoice cost of the goods against the correspondent account of the State Bank in a foreign bank, takes place only after the presentation to the bank in which the letter of credit is opened of the appropriate cargo documents. It is a condition of other letters of credit that the foreign bank credits the value of the commodity to the account the State Bank immediately after receipt of a telegraph communication of the receipt from the exporter of the cargo documents for transfer to this bank. In the first case, proceeds from export are received on the account of the State Bank later than in the second in that transfer of the cargo documents from Moscow by mail requires, depending upon the distance, a variable amount of time.

The technique of letter of credit operations in Soviet export can be explained by the following example of the initiation of a letter of credit by a capitalist firm in a foreign bank:

1. The capitalist firm initiates, in an agreed on bank of its country, an irrevocable letter of credit in favor of the foreign trade association or State Bank USSR, for the invoice value of the purchased goods.
2. The foreign bank informs the State Bank USSR by telegraph of the issuance of the letter of credit with an indication of its condition in particular, the cargo documents against which payments against the letter of credit will be made. The foreign bank then confirms this telegram by sending the State Bank the letter of credit by mail in which the conditions of payment are stated in detail.
3. After receiving the telegram, the State Bank transfers it to the foreign trade association with the request to confirm the conformance of its conditions to the contract.
4. The foreign trade association within a very short time confirms its agreement to the conditions of the letter of credit. In the event of disagreement by the association with the individual conditions of the letter of credit, the State Bank communicates this to the foreign bank with a re-

quest to changes these conditions. At the same time the association takes up this question with the foreign buyer who initiated the letter of credit.

5. If the conditions of the letter of credit correspond to the contract with the buyer, the foreign trade associations proceed to ship the commodity at the time stipulated in the agreement.

6. The State Bank transfers the cargo documents of the shipped commodity for collection to the foreign correspondent bank in the country where the letter of credit was issued.

7. The foreign correspondent bank presents the cargo documents to the bank in which the letter of credit was initiated and credits the amount received against the letter of credit in the State Bank account with the foreign bank correspondent and then informs the State Bank by telegraph or mail, depending upon the instructions, on the receipt of the indicated amount.

8. Upon receiving this information, the State Bank pays out the appropriate sum in rubles to the foreign trade association by crediting it against the association's account or, more frequently, applying it to the liquidation of the loan received earlier by the association in the form of a special loan for export operations.

From the point of view of greater rate of receipt of returns from the export operations, it is possible to establish the following order in the terms of payment:

- 1) Payment for the commodity by the buyer at the moment the contract is signed with the exporter;
- 2) The payment for the commodity by the buyer at the time shipment is ordered;
- 3) Payment against the letter of credit initiated by the buyer or by his bank in the State Bank USSR in Moscow;
- 4) Payment against the letter of credit initiated by the buyer in a foreign bank after receiving a telegraphic advice from the State Bank USSR on the shipment of the commodity and receipt from the exporter of the cargo documents;
- 5) Payment against the letter of credit arranged for in a foreign bank against the cargo documents presented to the bank;
- 6) Payment against cargo documents transferred to the buyer by the collecting bank (the collection form of account);
- 7) Payment for the commodity by the buyer within a certain time after receiving the commodity from the exporter (the open account);
- 8) Payment after the arrival of the commodity into the country of designation and quantitative and qualitative acceptance of it by the buyer.

In the collection form of account the promptness of freeing the circulating capital of the exporter depends upon

the extent of the term during which the buyer is obligated by the contract to buy the cargo documents from the bank of collection. In the open form of account it depends on how long after the commodity has been received by the buyer that he pays for it to the exporter. In most cases both of these forms of accounting result in slow payment for export expenditures.

The most disadvantageous account for the exporter is payment for the goods by the buyer only after its arrival and acceptance. Payment for the commodity only after its acceptance in the country of designation make it possible for the buyer to postpone payment or to make a partial payment for the value of the commodity, on the basis of various and frequently unjustified claims for non-payment.

In the financial conditions of export contracts, material sanctions in the event of non-fulfillment of the buyer's obligation are also usually provided. Soviet exporters attempt to stipulate in the contracts the right of the seller to receive compensation for losses up to a specified percentage, (for example, 10% of the amount of the unfulfilled obligation by the buyer). The unfulfilled obligation on behalf of the buyer will occur when the purchaser fails to redeem the cargo documents or pays for them at a date later than that stipulated by the contract.

Besides exacting penalties for lateness of the buyer in arranging for a letter of credit, the foreign trade associations usually reserve the right for themselves of canceling the contract either completely or the unfulfilled part in the event of breach of contract by the buyer, communicating this to the buyer and charging all expenses to him if they are not covered by the forfeit clause of the contract.

Soviet exporters exact the payments due to them from the buyers and transfer their demands to State Bank USSR for collection.

The collection for the cargo documents can take place both by payment through the letter of credit and cash accounts. If payment takes place through the letter of credit arranged by the importer, the payment conditions are indicated in detail in the letter of credit.

In sale under a cash account payment takes place against the transfer of the cargo documents to the collecting bank. It remains to distinguish in the cash and letter of credit forms of account two types of collecting operations, depending upon whether the payment takes place in cash or by credit by means of acceptance of the bill of exchange presented by the exporter to the importer. In the first case the cargo documents are issued against payment by the importer of an appropriate sum of money. In the second, the exporter, simultaneously with the transfer of cargo documents, presents the

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bill of exchange to the importer and the cargo documents are issued to the importer by the bank, not against immediate payment, but against the acceptance of the bill of exchange of the exporter by the importer.

Detailed instructions against which and upon the conditions of which payment by the buyer of the commodity should take place are given to the exporter by the collecting bank for collection purposes.

In Soviet practice the collection task is issued ordinarily to the foreign bank, not by the foreign trade association, but by the State Bank USSR to whom the associations transfer the cargo documents for collection.

Accounting in Import Operations. Although in import operations with firms of the capitalist countries the Soviet foreign trade associations apply the same forms of international trade accounting used in export operations, the conditions of these accounts do not always correspond to the conditions of accounts in export operations. This is explained not so much by certain differences in the commodity structure of Soviet import and export, which is now constantly being evened out, as by the diverse position occupied by Soviet exporters and importers on the trade market with relation to their capitalist contract partners.

In export, Soviet foreign trade associations have firms and organizations whose ability to pay depends on the contingencies of the capitalist economy as their buyers. But in Soviet import the foreign firms and organizations have the Soviet foreign trade associations as their buyers, which conform to the national economic plan and whose ability to pay and punctuality in the fulfillment of contract conditions is beyond doubt. This releases the foreign suppliers from the necessity to insist on those conditions of accounting which protect them from the risk of non-payment for the commodity by the buyer or from the risk of non-purchase of the cargo documents, (that is in the letter of credit and collection forms of accounting). However, in practice, in Soviet import these forms of accounting have, depending upon the changing conditions of the commodity market and other conditions been more or less prevalent.

Prior to World War II the open account and collection account were the main forms of accounting for industrial equipment and machines in the capitalist countries. These forms were applied in accounts of Soviet foreign trade organizations with German, Austrian, Czechoslovakian, British and Swedish firms. In purchases of raw materials, and especially trade goods, the letter of credit form of accounting predominated. The latter is explained by the fact that

with commodities that are subjected to frequent fluctuations in prices, payment through the letter of credit is the most extensive form of payment in international trade.

In the agreement of the USSR with Great Britain in 1936 in which the Soviet Union was extended financial credit to the amount of ten million pounds sterling, payments for commodities bought on the basis of this agreement could take place by Soviet import associations by one of the following three methods: 1) in cash in London after the presentation to the supplier of shipping documents and bills; 2) within a period of thirty days after the dispatch of these documents and bills by one of the British banks to the State Bank USSR for collection; 3) within a period of thirty days after the dispatch of the documents by the British suppliers directly to the Soviet import associations.

During the first years after World War II as a result of the change in the market conditions in favor of the suppliers (a seller's marker), the letter of credit form of accounting for orders of industrial equipment received widespread application. However, at the present time, separate transactions with the open account and collection account are receiving wide application in certain capitalist countries.

Soviet foreign trade associations should attempt to provide in treaties with suppliers in import operations those conditions of accounting which will guarantee a punctual fulfillment of obligations on the delivery of the commodity by a foreign supplier, that would commit Soviet funds to a lesser degree and remove extension of unsound credit to foreign suppliers.

From this point of view, the open account and the collection account are the most advantageous form of accounting in import operations.

In this form of accounting Soviet currency resources are not immobilized before the appropriate commodities are received by the buyers. Besides this, the date of payment usually established in this form is for a specified quantity of days (30 days) after the dispatch to the supplier of the commodity documents or transfer of them for collection which gives the Soviet importer sufficient time for verification. Within this time the arrival of the same commodity occurs as a rule and makes it possible to verify its quality before payment. In these situations, payment takes place, in fact, after the arrival of the appropriate commodity into the USSR. Due to such a date of payment, the foreign trade associations do not need to receive loans from the State Bank for an account with the supplier.

These advantages do not exist in the letter of credit form of accounting. The payment for the imported commodity

with a letter of credit arranged by the foreign trade association in favor of the foreign supplier involves, first of all, supplementary expenditures in the form of a commission to the bank correspondent. The expenditures for the letter of credit are borne by the buyer, as a rule. In the letter of credit form of accounting the foreign trade associations need to utilize a loan from the State Bank USSR for the issuance of a letter of credit, and thus pay a rate of interest for it.

In addition with this form of accounting, certain immobilization of currency resources of the USSR almost always takes place. It is occasionally necessary for the State Bank to transfer the letter of credit issued to a foreign bank even before the cargo documents are presented to the buyer for payment. This means that the State Bank extends credit to a foreign bank without receiving interest.

Letters of credit may be arranged by foreign trade associations at the State Bank or in a foreign bank after an agreement with the foreign supplier has been made. However, in practice, the letters of credit opened in the State Bank are almost never encountered. The letters of credit are usually arranged by foreign trade associations through the State Bank in a bank of the exporter's country, or of a third country. In this, the appropriate foreign bank collects a supplementary commission for confirming the letter of credit to the supplier.

The letter of credit may be opened by mail or by telegraph. All expenditures connected with the issuance of a letter of credit, including the payment of the confirmation commission to the foreign bank, is usually carried, as indicated above, by the importer, the buyer of the commodity. However, cases are encountered in which, on the basis of a special agreement between the parties in the transactions, expenditures for the letter of credit commissions are covered either completely or partially by the supplier.

The bank in which the letter of credit should be arranged is agreed upon ordinarily by the supplier and buyer of the commodity. The issuance of the letter of credit in a foreign bank that is not a correspondent of the State Bank is always involved with supplementary expenditures which fall ultimately on the foreign trade association for which the State Bank issues the letter of credit.

Letters of credit for accounting in transactions taking place through clearing agreements on commodity and payment exchange between states concluded by the USSR with the appropriate countries is almost always arranged for in the banks of the exporter's country. They are arranged most frequently in the central banks of these countries.

A certain immobilization of currency resources of

the USSR in letter of credit operations as well as the currency expenditures on the arrangements for a letter of credit, depend upon the nature of the letter of credit and its term.

Revocable letters of credit do not involve the need for transferring the payment to the foreign bank before presenting the cargo documents for payment. In irrevocable letters of credit foreign banks demand the transfer of payments the moment the letter of credit is issued, or the commodity is ready for delivery. In opening not only irrevocable, but confirmed letters of credit, as well, foreign banks demand full payment of credit before its confirmation.

The necessity of transferring payments on the letter of credit to a foreign bank by the State Bank (i.e., means in reality, crediting of a foreign bank) means that there is immobilization of Soviet currency resources, sometimes for a long period before the commodity is received in the USSR. Particularly undesirable is so-called long-term letters of credit with terms of 6-9, and sometimes more, months. Besides this, if interests are paid by the State Bank for current accounts in foreign banks, the transfer from these accounts of payments to the bank in which the letter of credit has been arranged means losses of interest on the amount transferred.

The immobilization of the currency resources of the State Bank occurs, in fact, also in those cases in which the foreign banks do not demand transfer of payments the moment the letter of credit is issued, in that the State Bank, having obligations on the letter of credit, is not able to freely manipulate the relevant sums in his current accounts.

The closer the date for issuing the letter of credit is to the shipment of the commodity and the presentation of the cargo documents by the seller for payment, the less time the immobility of the currency resources of the State Bank exists.

The types of cargo documents for which payments occur in the letter of credit and collection form of accounting depend upon the nature of the import of the commodity and the conditions of its transport. Thus, in the purchases of industrial equipment, it is usually requested that the packing list, specifications, the cargo checker's authorization for shipment, confirmations, that all the other materials (blueprints, etc.) have been dispatched earlier. The supplier does not require ordinarily, however, the typical set of cargo documents, that include the bill of lading or duplicates of the railway bill of lading, insurance policy, or the certificate for delivery "SIF", and the invoice. In countries in which a system of regulation of export and import exists through licensing, a certified

copy of the export permit is added to the documents enumerated above. For certain commodities, as, for example, ships, cattle, the acceptance certificate is to be included in the cargo documents.

The payment for certain import commodities in which the quality is stipulated in the contract can be verified only after receipt or analysis (for example, the concentrates of non-ferrous metals, etc.). The payment for the commodity by the buyer takes place in two installments: the large part of the value of the commodity (80-90%) is paid after the presentation of the bill; the remaining part, after the final bill and form, the completion of agreed analysis, confirming the established quality of the product (for example, the content of metal in ore, etc.). Such a form of accounting protects the buyer from losses in the event of a product quality inferior to that agreed upon in the contract this releases him from the necessity of presenting the consequent claims.

In arranging for letters of credit for the payment of certain raw materials (non-ferrous metals, etc.), for which the prices are subject to frequent fluctuations, it is expedient to Soviet importers to demand from foreign suppliers that are small and secondary the presentation of special bank guarantees for the fulfillment of the latter's deliveries. The content of such a guarantee which is called the "Guarantee bond" is the obligation of the bank to pay the buyer a stipulated sum in the event of non-delivery of the commodity sold by contract and non-utilization by the supplier of the letter of credit issued in his favor, which represents the compensation for losses resulting from the freezing of the funds of the buyer on the irrevocable letter of credit for a more or less extended time. The extent of these losses is established earlier, usually in terms of a defined percentage of the quantity of the letter of credit.

For orders of certain types of equipment it is necessary in certain cases for Soviet importers to themselves extend credit to the extent that the equipment is ready for delivery to foreign suppliers, in the form of advance payments or payments for ordered equipment.

In Soviet foreign trade, advance payments to foreign suppliers take place relatively rarely and then only for orders of expensive and complex industrial equipment, whose process of production requires an extended amount of time. As a general rule, orders for industrial equipment and other commodities are arranged without advance payments. Foreign suppliers need not receive advances in order to protect themselves from the risk of non-acceptance of the commodity by the buyer in that their client is the State foreign trade association of the USSR whose ability and punctuality in the fulfillment of assumed obligations is beyond doubt.



Advance payments made by Soviet importers to foreign firms for orders of intricate and expensive industrial equipment with an extended period of manufacture represent not deposits, but forms of financing for the process of production (i.e., the extension of credit to the supplier).

In those circumstances in which advance payments are made for certain orders of industrial equipment, it is necessary to provide for the following in the contract with the supplier: 1) the form of the advance payment; 2) the amount of the advance payment; 3) time of its payment; 4) the arrangements for liquidation of events; 5) the form of the guarantee for the return of the advance in case of non-fulfillment of the contract by the supplier; 6) the calculation of interest on the refunded advance payment.

Advance payments may be represented in monetary and natural forms. The natural advance payments consists of the presentation to the supplier by the buyer of certain types of raw materials necessary in the process of production of the ordered industrial equipment.

The extent of the advance payment is established ordinarily in the form of a specific percentage of the value of the order (i.e., the value of the stipulated shipment of the industrial equipment). In the practice of international trade the amount of the advance payment fluctuates between 10 to 35% of the order, depending upon the nature of the commodity, its value, the time of manufacture, and other conditions.

The advance payments received by the supplier are usually liquidated by supplying the ordered commodity and deducting the amount of the advance payment from the value of the supplied commodity on the final bill. If the shipment of the ordered commodity occurs in separate installments, the advance payment is liquidated gradually by the supply of each separate partial shipment of the commodity.

Soviet importers should not remit the advance payment to the supplier until confirmation of the order takes place and a guarantee for the refund of the advance payment in the event of non-fulfillment or annulment of the contract for the shipment is received from him. The most suitable form of protection for the refund of the advance payment by the supplier is the presentation to the buyer of a guarantee of a first rate foreign bank. In this guarantee the conditions under which the supplier is obligated to refund to the buyer the advance payment received (non-fulfillment of the conditions of the contract, annulment of the contract resulting from delay in the shipment within the stipulated time, and other conditions), should be specifically stipulated. The expenditures to the bank for the guarantee fall on the supplier.

The advance payments remitted to the supplier may bear interest or be non-interest. In orders for large and intricate industrial equipment requiring an extended period of manufacture the supplier usually calculates the percentage of interest on bank loans needed because of an insufficient turnover fund on the buyer's account. If the supplier receives an advance payment for the order, it frees him from the necessity of obtaining credit from his bank and paying interest for that credit. Therefore, if interest is not charged for the payment the buyer is justified in demanding from the supplier that he decrease the price of the commodity supplied for the amount of the interest on the advance payment. Regardless of whether the advance payment is interest free or bears interest, interest should be charged on the refunded advance payments if the commodity is not supplied or the contract is annulled. The amount of the interest on the advance payment in the event of its refund should be provided for earlier in the contract with the supplier.

Another form of financing the process of production by the buyer, analagous to the advance payment, is the payment to the indicated supplier of the industrial equipment for each manufactured portion of the equipment.

Such a form of payment is applied relatively rarely, mainly in orders for intricate and expensive types of equipment requiring an extended period for manufacture, as, for example, hydro-electric stations, ships, etc. Payment by the buyer for such a type of order occurs in terms of fulfillment by the supplier by means of the partial payment, or the state of completion of the order. The amount of the partial payment is established in the form of a specified percent of the total value of the order.

It is possible to present the conditions of payment for orders of ships applied by certain ship building firms of the capitalist countries in 1958, as an example: 1) 15% of the value of a ship is paid within six months after signing the contract; 2) 15% after laying the keel; 3) 15% after testing the hull of the ship for water tightness; 4) 15% after installing the main engine and the gross markers; 5) 15% after mooring tests; and 6) 25% after the complete readiness of the ship and release to the buyer.

The first payment represents an advance payment and the four intermediate payments are payments for expenses of the supplier for the separate stages in the processes of production, and the last payment is the payment of expenses for the completed stage.

The advance payment and the intermediate payments occur after the presentation by the supplier to the buyer of a guarantee to refund the appropriate sum in the event of non-delivery within the specified term or the annulment

of the contract before delivery. As indicated above, the form of the guarantee that protects the interest of the buyers the most is a sufficiently complete and all encompassing guarantee of a first rate bank. Intermediate payments are those that take place not only against bank guarantees, but against the certification of an inspector or representative of the buyer in the appropriate stage of preparation of the given object.

If the advance payment and the intermediate payments are not charged interest, the buyer can justifiably demand from the supplier a discount in the price of the ordered equipment corresponding to the amount of the percentage inasmuch as the supplier enjoys credit in such a case. Regardless, in the contract with the supplier, it is necessary to stipulate the payment of interest in the event of a refund of the advance payment and a partial payment in the non-fulfillment of supply and the annulment of the contract. The absence of such a condition would mean that the supplier is obtaining interest free credit.

In contracts for orders of intricate equipment and machines in which the exact compliance of the technical specifications to the conditions of the contract may be established only after a period of use, the Soviet buyers sometimes require from the suppliers the presentation of a special guarantee of the quality of the equipment delivered. With this as an aim of certain agreements, it is stipulated that equipment is paid, not in full upon delivery, but only up to 85-90% of its value. The remaining 15-10% remains as a guarantee in the event of non-fulfillment of the contract as regards the stipulated quality of the equipment and is paid to the supplier within 30 days after the expiration of the guaranteed period stipulated in the contract if the quality of the equipment corresponds to the conditions of the contract.

Instead of retention by the supplier of this guaranteed amount, the preservation of the quality of the equipment supplied may be provided also by the presentation of a guarantee of a first rate bank which requires a special deposit by the supplier with the bank, and other forms as well.

In contracts for orders of equipment, machines, and certain other commodities, including intermediate products and raw materials, specified material sanctions in case of delays in supplying the commodity within the period stipulated in the contract are usually provided for. Appropriate penalties are established, of a specified percent of the value of the equipment or quantity of products not supplied within the stipulated period and are levied for each week of delay, sometimes with a progressively increasing percentage.

Thus, for example, in an agreement with Germany on the

general conditions of supply in operation until the second World War, penalties for each week of delay in supply of .5% were established for a period of the first four weeks and 1% for each following week of delay. However, the penalty should not exceed 15% of the value of the order that was not fulfilled on time.

In certain Soviet import contracts there are provisions which require payment by the supplier of damages in case of delay in delivery beyond a fixed date and which give the buyer the right to annul the contract and to demand from the foreign supplier indemnities for the loss he has caused by not fulfilling the contract.

Foreign trade organizations should carefully watch all fluctuations in the capitalist market, so as to profit from them in the best way possible, not only for the conclusion of business deals at the most advantageous prices, but also for purposes of improving the foreign-exchange and financial terms of accounts with foreign firms -- buyers and suppliers.

## CHAPTER V

### PAYMENT AGREEMENTS BETWEEN THE USSR AND FOREIGN STATES

#### 1. The Causes Which Brought About the Conclusion of Inter-governmental Payment Agreements.

##### Basic Kinds of Payment Agreements

International currency relations are not limited under conditions of the present crisis of capitalism, to accounts between the real and legal persons of the various countries.

Interference by the capitalist states in economic life in the interests of their monopolies, which deeply affects the sphere of foreign currency relations, by establishing limited operations in foreign currencies, government regulations on its distribution, and other measures, has brought about the necessity of concluding between the countries of governmental payment agreements. The purpose of these agreements is, on the one hand, to remove the negative effects of the measures for currency restrictions in foreign trade and, on the other hand, protect the interests of domestic exporters and creditors from damages caused by currency restrictions. At the same time, with the aid of payment agreements, the mechanism of international accounts is used by the capitalist countries for purposes of a struggle for markets in which to dispose of their goods and for foreign economic expansion. Inter-governmental payment agreements, as well as the currency restrictions which brought them about, represent, therefore, one of the manifestations of governmental, monopolistic capitalism.

Currency restrictions, as a characteristic system of regulation of foreign currency relations, appeared first during World War I and were closely connected with wartime conditions. Soon after the war's end, the currency restrictions introduced in the states participating in the war and also in some neutral countries as extraordinary measures, were revoked.

Currency restrictions appeared again during the world economic crisis of 1929-1933 as a means of regulating the balance of payments and as protection against currency devaluation. Currency restrictions in this period, however, were introduced only in the economically weak capitalist states -- in the debtor countries -- Germany, Austria, the Balkan Countries, and in the majority of the South American Countries. The richer capitalist countries, the creditors countries, which possessed considerable gold and currency reserves, such as the US, Great Britain, France, Belgium, the Netherlands,

Switzerland, Sweden, Canada, and certain others, continued up to World War II to preserve the freedom of currency operations and the convertibility of their currencies in foreign-trade transactions.

World War II, which brought about the further sharpening and deepening of the general crisis of capitalism, resulted in an almost universal spread of currency restrictions in the capitalist world.

The currency restrictions in foreign trade introduced during World War II in Great Britain, France, Belgium, the Netherlands, Sweden, and other countries, as well as the currency restrictions established earlier in some capitalist countries during the economic crisis of 1929-1933, continued in force in these countries, with few changes even after the war, up to the end of 1958.

At the end of December 1958, Great Britain and other West European countries -- except Iceland, Spain, Greece, and Turkey -- introduced convertibility of their currencies for current transactions in accounts with foreign real and legal persons. In connection with this, the territorial sphere of currency restrictions has shrunk and, for the most part, embraces at present only the economically underdeveloped capitalist countries on various continents. It is necessary, however, to keep in mind that the introduction of convertibility of currencies in the countries mentioned was caused not by a basic improvement in their economic and currency situations, but by a situation which, due to economic fluctuations, is only of a temporary nature. Therefore, the convertibility of West European currencies should not be regarded as sufficiently stable and solid.

Inter-governmental payment agreements began to be concluded between capitalist countries by the end of 1931, i.e., a quarter of a century ago. Along with the increase in the number of countries introducing currency restrictions, the number of countries which concluded inter-governmental payment agreements with one another also rose. The main goal of these agreements was to maintain equilibrium in the balance of payments with particular countries and to avoid an unfavorable balance, which would lead to the expenditure of gold and currency resources. The "dollar hunger" (dollar shortage) caused by the US in Western Europe and in other countries forced those countries to build their foreign-trade relations on the basis of equality of value in goods exchanged between them and the adoption of the clearing method of settling accounts. In addition to being used as a means of combating the "dollar hunger," the clearing method was used by individual capitalist countries as a means of defense against economic aggression by the US.

The Soviet Union had to conclude inter-governmental payment agreements as far back as 1932 in order to ensure

the use of the receipts from USSR exports in those countries with currency restrictions.

The international accounts of the USSR in connection with foreign trade were carried on until the world economic crisis of 1929-1933, mainly in convertible foreign currencies. In the majority of the capitalist countries, the currencies at that time were relatively stable gold currencies, convertible into other foreign currencies. Because of this, the payments for exports received in one country or another in its local currency could always be converted into some other foreign currency and used as payment for goods and for other expenses in any other country.

This situation changed during the world economic crisis of 1929-1933, when currency restrictions were introduced in many capitalist countries. As a result of the introduction of currency restrictions, the conversion of the local currency of these countries into the currencies of other countries, which was necessary to the Soviet Union, became impossible or extremely difficult. Payments for USSR exports received in the countries with currency restrictions could not be used for purchases of goods and for payments in third countries. If the export payments of the USSR were not immediately spent for the purchase of goods or for other payments in the given country, they were in danger of being frozen in accounts in the banks of these countries. In practice, it would have meant compulsory credit for these countries on the part of the Soviet Union.

Due to its monopoly over its foreign trade and the planning of its foreign accounts, the USSR was able to remove, within certain limits, the negative results of the currency restrictions, directing its trade relations with countries having currency restrictions in such a way that receipts for exports should not exceed the amount of currency necessary for payments for USSR imports from or other expenses in those countries. However, in certain countries having currency restrictions, obstacles were created to the free use of the currency receipts for exports, even for payments within those countries. In such cases, the government of the USSR found it necessary to adopt measures necessary to prevent a loss in Soviet foreign trade.

When the currency authorities of Germany and certain other countries began to create difficulties of that sort, in January 1936, the export of Soviet goods was forbidden to countries where currency and foreign bill legislation or administrative orders did not secure for Soviet economic organizations the free use of receipts from export goods for payment of all obligations and trade representatives in those countries. The order (prikaz) of the People's Commissariat of Foreign Trade USSR issued in 1936 established specific conditions under which export organizations were permitted to

export goods to Germany, Portugal, Rumania, and Yugoslavia.

Another method of protecting the interests of the Soviet Union in cases where the governments of capitalist countries created obstacles against fulfillment by foreign firms of their obligations to Soviet economic organizations or blocked Soviet funds in the accounts of foreign banks, was the establishment of unilateral forced clearing of accounts with the respective countries.

Thus, in 1932, when institutions and firms of Italy arbitrarily stopped their payments to Soviet trade organizations, the government of the USSR enacted on 14 January 1938 a decree (postanovleniye) to the effect that sums owed to Italian institutions and firms for obligations of Soviet organizations were to be carried in a special account opened for that purpose by the State Bank USSR (see Izvestiya, 15 January 1938). No transfers from this account to Italy could be made without a special order from the Council of People's Commissars USSR. Due to this decree, the interests of Soviet organizations were protected from material loss which would have resulted as a consequence of the arbitrary stoppage of payments by Italian institutions and firms. When, later in 1939, Italian firms and institutions resumed payments on their obligations, the decree mentioned above was rescinded.

The basic measures undertaken for the purpose of preventing a loss in foreign trade as a result of the adoption in the capitalist countries of currency restrictions, was the conclusion with the appropriate countries of clearing-type payment agreements. In these agreements the right was provided for the Soviet Union to use fully the receipts from Soviet export operations in the respective countries for purchases of goods and for other payments in those countries.

After World War II, clearing-type payment agreements began to be used for the organization of mutual accounts for USSR foreign trade with all the countries of the socialist camp, as well as in the trade of those countries between themselves. Under conditions of a socialist economy, the clearing method of international accounts changes its content and purpose.

The payment agreements of the USSR with the socialist countries, in view of their basic differences from the payment agreements among capitalist countries, will be treated further in a separate paragraph.

#### Types of Inter-Governmental Payment Agreements

Inter-governmental payment agreements encompass all kinds of agreements between states (or between their governmental organs), which prescribe the system of conducting and organizing, and the currency conditions involved in accounts between the real and legal persons of the countries, in foreign trade and/or in other operations of a non-trade nature.



Inter-governmental payment agreements can be subdivided into two types: currency agreements on non-clearing type payments, and currency-clearing agreements.

Non-clearing type payment agreements are basically agreements which prescribe the system of reserving currency for payments in connection with foreign trade and other operations, and which define the right of converting receipts from exports in a given currency into other currencies, or to prescribe conditions for the use of this currency in other countries.

During the world-wide economic crisis of 1929-1933, and in the following years, payment agreements which prescribed the system for allotting foreign currency were concluded between countries having freely convertible currency with countries having currency restrictions (for example; in 1934, the agreements concluded by Great Britain and France with Germany). In these agreements, the countries having currency restrictions usually obligated themselves to set aside specific amounts of currency, obtained from their export activities to the country with which such an agreement has been concluded, for settling accounts arising out of import activities of that country as well as for the settlement of prior trade and economic debts. In such an agreement part of the export receipts was reserved at times for the free disposition of the country with the currency restrictions. Later, when currency restrictions encompassed the majority of the capitalist countries, this differential kind of payment agreement lost its meaning.

Of late, inter-governmental payment agreements of the non-clearing type consist to a large degree of agreements on the system of converting into other currencies the receipts from exports in local currency, which were placed in bank accounts, and on the rights to use these sums for payments in other countries (the agreements on the transfer of accounts, for example, in pounds sterling, marks of the Federal Republic of Germany, etc., which existed until the end of 1958.)

In connection with the tendency lately observed of a decrease in the currency restrictions and the introduction of currency accounts with a fixed degree of convertibility of the sums in them into certain other currencies, agreements began to be concluded (protocols, exchanges of notes) on the reservation of the right to use these accounts. These agreements are the payment agreements of a non-clearing type.

Agreements of this kind were concluded between the Soviet Union and various capitalist countries. However, a considerable portion of the USSR's foreign-trade international accounts are based on currency-clearing agreements.

## 2. Basic Features of the Clearing Method of International Accounting

In the basis of the clearing agreement lies the idea of the cashless account, the exchange of goods of one country for the goods of another without the transfer of gold or currency. This goal is achieved by entering into a ledger the mutual monetary claims and obligations arising among the countries as a result of foreign-trade and other economic and non-economic relations among them. It would be wrong, however, to identify clearing with the natural exchange of goods (barter), since clearing, in practice, does not do away completely with monetary accounts. In addition, the clearing method of settling accounts may be applied not only to payments in the selling or buying of goods (to goods exchange), but also to payments on other trade and non-trade operations. This statement is not contradicted by the fact that the task of clearing, as was said above, consists in making possible the exchange of a definite amount of goods or services delivered by one country, for an equal amount (in prices) of goods and services of the other country, without recourse to payments in gold or foreign currency.

The basic and characteristic features of the clearing method of international accounts, which is based on the principle of bilateral inter-governmental currency-clearing agreements, consist of the following:

Clearing means, first of all, the centralization in special banks or specially created clearing institutions of the accounts of real and legal persons of two countries engaged in foreign trade and other operations encompassed by the given agreement.

An important feature of clearing, directly connected with the centralization of accounts and the registration of mutual claims and obligations, is the compulsory nature, for all the real and legal persons of the respective countries, of clearing accounts for the operations covered in the given agreement. The centralization and entering of mutual claims and obligations in special clearing accounts is the most important feature of the clearing method of international accounting. Because of such a method of accounting, it is possible for goods supplied in a given period of time by one country to be exchanged for an equal amount (in prices) of goods and services of another country without necessitating in each and every case payments in gold or foreign currency.

Thus, present inter-governmental currency-clearing agreements can be defined as agreements on the centralization in special banks or special clearing institutions of foreign trade accounts and other transactions of the real and legal persons of the bi-lateral agreement, for the purpose of

accounting for their mutual claims and obligations.

The system of conducting this accounting consists of the following: Importers and other debtors having obligations against the real and legal persons of the other country with which the agreement is concluded, pay the amounts owed by them not directly to the exporters and creditors of that country, but to the bank or clearing institution of their own country, into the special account of the bank or clearing institution of the contractor country. On entering the appropriate amounts, the bank or clearing institution of the importer country (debtor) immediately notifies the bank or clearing institution of the exporter country (creditor). The latter pays the exporters (creditors) of its country the amounts paid into the clearing accounts in the other country by the importers (debtors). As a rule, these payments take place in the capitalist countries not out of the amounts paid by importers (debtors) of the other country, but out of amounts deposited by its importers (debtors) in favor of the exporters (creditors) of the other country.

If there are no special clauses in the payment agreements, then these payments take place only after an appropriate surplus has accumulated in the clearing account. In the absence of the necessary surplus in the account, the exporters (creditors) must wait until sufficient amounts have accumulated as a result of deposits by creditors and importers of their own country.

Actually, the present-day inter-governmental clearing type payment agreements allow for mutual technical credit by the central banks or clearing institutions. As a result of these credits, the banks or clearing institutions pay out to the exporters (creditors) of their countries the amount due them, even when the clearing account of the bank of the importer country (debtor) does not have sufficient surplus.

The importers (debtors) pay the clearing bank or clearing institution, in the currency prescribed by the payment agreement, the amounts owed by them. If this currency is not their national currency, but the currency of the other country or of a third country, they then buy this currency in the clearing bank with their own currency. Equally, on the orders of the clearing bank of one country, the clearing banks or institutions of the other country pay out in the clearing currency to its exporters (creditors) the amounts owed them; if this currency is that of the first country or of a third country, they then convert it into their own national currency. The clearing currency is not a freely convertible currency, but a clearing-account unit. Because of this, the exporters (creditors) receive the amount owed to them, in the final analysis, not in the clearing currency, if it is not their own currency, but in their own local currency. This is a positive side of the clearing account,

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as the expansion in the exchange of goods between the countries which concluded payment agreements does not meet with obstacles in the form of a shortage of free foreign currency or gold.

Present-day clearing in international accounting can be divided into unilateral, bilateral, trilateral, and multilateral.

Unilateral clearing is compulsory if it is established by one country without the consent of the other country, for the purpose of collecting trade indebtedness and financial debts of the institutions and organizations of the country which has halted payments to the first country, or for other reasons. Unilateral clearing is analogous to freezing export receipts and other sums deposited to the credit of the debtor country, for the purpose of using them to satisfy the claims of exporters and creditors of its own country.

An example of compulsory clearing is the decision of the British government, taken in 1935 in connection with the adoption of economic sanctions against Italy after the latter attacked Ethiopia. According to this decision, British firms and organizations were obliged to deposit the amounts they owed to Italian real and legal persons into a special account opened for that purpose in the bank of England. The amounts entered served as a form of guarantee of receipt by the British firms and institutions of the commercial and financial debts owed them by Italy. The same compulsory clearing was introduced in Italy in 1935 relative to Great Britain and other countries which took part in the sanctions.

Bilateral, trilateral, and multilateral clearings are based on voluntary agreements between the respective countries. Differing from a bilateral clearing, in which the accounting for mutual claims and obligations takes place only between the two countries, in trilateral and multilateral clearing, this method is applied with regard to three or more countries which have concluded among themselves the appropriate agreements. In practice, trilateral clearings are found most often in the form of agreements between three countries to the effect that indebtedness created in the clearing accounts between two countries may be liquidated through the active balance of the account which the debtor country has with the third country taking part in the trilateral agreement. The European Payments Union, which existed in the years 1950-1958, serves as an example of multilateral clearing.

The most important clearing account issues which are usually stipulated in international payment agreements are: 1) the technical system of carrying the accounts; 2) the extent of the transactions for which payments should take place through clearing; 3) the currency of the clearing accounts; 4) the system of regulating the balance of payments in the clearing accounts and of liquidating indebtedness which may

accumulate in the clearing accounts; 5) insurance of clearing accounts against risk of currency de-evaluation and 6) payment of interest on clearing indebtedness.

#### System of Managing Clearing Accounts

From the point of view of the system of managing clearing accounts, present-day inter-governmental clearing may be divided into clearing managed by the single-account system and clearing managed by the double-account system. In the single-account system, the clearing accounts are carried in the bank of only one of the countries concluding a payment agreement. In the double-account system, the clearing accounts are carried in the bank accounts of both countries.

The system of managing clearing accounts is a matter of technique if the mutual crediting of both parties exists. However, in the absence of such crediting, it takes on a definite economic meaning. In that case, the single-account system puts in a privileged position the country in which the clearing accounts are carried and in an unprivileged position its clearing partner. Importers and debtors of the first country are able to liquidate their trade and credit obligations by depositing in their own currency in the clearing account of the other country the amounts they owe. Accumulation in this account of the aforementioned deposits will mean, economically, the granting of credit to the country where the clearing accounts are located. On the other hand, the country in which the clearing accounts are not carried will be forced to obtain for the payment of obligations of its importers and debtors, in the event of insufficient funds in her clearing account, currency of another in gold or in freely convertible currency. Such an unequal situation does not exist if the clearings are carried on by the double-account system. In this case, both sides are in the same situation and may be, depending on the clearing accounts, debtors as well as creditors to each other.

The clearing institutions in which the special clearing accounts are carried are for the most part the central (national) banks of the respective countries. In certain countries special clearing institutions are created for this purpose.

#### Extent of Clearing

One of the important issues stipulated in clearing agreements is the question of the extent of trade and other transactions between the countries for which payment through clearing should take place. Practically, this means that only in the operations encompassed by the clearing may the accounts be carried as cashless, by entering mutual claims and obligations. On all other operations, payments have to be in the usual exchange of currency.

In the majority of inter-governmental payment agreements the clearing system of accounts encompasses payments for goods which the countries supply one another and expenses connected

with the exchange of goods. However, in many agreements concluded between capitalist countries, the clearing embraces not only operations in foreign trade, but also payments in other so-called current operations (technical aid, various services, liquidation of commercial and financial debts, and other accounts of a non-trade nature.)

The basic significance of inter-governmental clearing accounts is their connection with the current exchange of goods between countries. Present-day clearing agreements are often directly connected with the agreements on the exchange of goods concluded among the respective countries, which prescribe the mutual delivery of specific goods. In some cases, agreements on the exchange of goods and payments are contained in one document. In other cases, separate agreements are concluded for the exchange of goods and for clearing accounts.

The practice of concluding agreements on the exchange of goods and payments which deal with the mutual delivery of goods and the clearing method of accounting for these goods became widespread in the capitalist countries immediately following World War II. The conclusion of such agreements was brought about by the extension of the sphere of currency restrictions on the one hand, and governmental regulation of foreign trade by way of export and import licenses on the other, which, in its turn, was caused by the sharpening of the general crisis of capitalism.

#### Clearing Currency

Clearing accounts may be carried as follows: 1) in the local currency of each of the countries concluding the clearing agreement; 2) in the currency of one of these countries; or 3) in the currency of some third country. If the clearing accounts are carried only in the currency of one of the countries concluding the clearing agreement, which is the case in the single-account system, the clearing currency is usually that of the country in whose bank the clearing account is carried. In the majority of clearing agreements between capitalist countries, the accounts are carried in each of the countries which are party to the agreement in its local currency. In special cases, where a clearing currency is also adopted, the currency of a third country, for example US dollars, is used.

#### Regulating the Balance of Payments in Clearing Accounts

An accurate daily accordance of payments by the partners in the clearing accounts cannot, for a number of reasons, be ensured. This is especially difficult to achieve under conditions of capitalist economy, in which foreign trade is carried on under the influence of anarchical market conditions.

Disturbance of the equilibrium in the balance of payments in clearing accounts can be caused basically by the following:

a. By the action of seasonal factors, as a result of which certain goods can be supplied only during part of the year and not equally during the whole year;

b. By the different type of goods supplied one another by the countries concluding the payment agreements. For example, if one country provides the other with finished goods which it has in warehouses, such as certain raw materials and food products, and the other country supplies the first with finished goods and machines which require some time to produce;

c. By failure, through the fault of one of the parties, to honor contracts for the delivery of goods prescribed in the trade agreements; and

d. By not meeting deadlines for the delivery of goods as prescribed in the contracts concluded with the firms and supply organizations.

In addition, disturbance of the equilibrium of payments in clearing accounts can also be caused by factors of a technical nature. Such a cause might be the adoption in the contracts concluded between the organizations and enterprises of both countries of different accounting methods. For example, for goods supplied by one side, the letter-of-credit form of accounting is adopted, with payment on the delivery documents from the credit account opened in the bank of the supplier country, and on goods delivered by the other country, the collection-bill method of accounting is adopted, with payment on the manifest not at the time it is presented, but after a specified period of time after its receipt by the bank of the buyer in the other country; then, the country whose goods are paid for by the letter-of-credit method will have a credit balance in clearing, even if there is complete equality in the costs of the goods supplied one another for the given period of time.

Discrepancies in the balance of payments with actual equality in costs of goods, supplied by the countries to one another, can also be caused by a delay in presenting for payment, by the organizations and firms of one of the parties to the agreement, of bills for unloaded and delivered goods.

Disturbance of the balance in clearing account payments brought about by various causes of a technical nature will not, however, mean that one country is granting credit to the other.

In all cases, disturbance of the balance of payments in clearing accounts means that the country having a credit balance in these accounts extends credit to the other country, which has a debit balance. In as much as many clearing agreements are connected with agreements on the exchange of goods, prescribing the mutual exchange of certain goods, the accumulation of a credit balance in clearing is an indication that one country has supplied the other goods in a larger



quantity than it received for it, i.e., it has given real credit to the other. The clearing method of accounts, if it is not to serve as a means of extending credit, can operate successfully only with the existence of relative equality of mutual payments over specified periods of time, i.e., by equality of the balance of payments on the operations encompassed by the clearing.

However, in certain clearing agreements the granting of credit on clearing takes place consciously. After World War II, mutual short-term crediting was done intentionally by capitalist countries on the basis of clearing agreements. This was characteristic of Great Britain, France, Belgium, The Netherlands, Switzerland, Sweden and Argentina.

In practice, even those clearing agreements which do not prescribe in advance an allowance for credit by the countries to one another, there usually is a certain imbalance in mutual clearing payments during the time the agreement is in force, which is not regarded as a violation in the balance of payments. This permissible limit of indebtedness in clearing accounts is usually called technical credit or limited credit. The establishment of such credit is a matter of convenience, as it is difficult to assure daily balance in the mutual clearing payments. Certain deviations are inevitable due to the seasonal and other causes given above. The amount of technical credit depends, all things being equal, on the amount of goods exchanged during a specific period. The central banks or the clearing institutions therefore, in clearing, extend credit to one another, which makes possible the payment of sums due the exporters even when there is a shortage of funds in the clearing accounts.

Despite the fact that capitalist governments are able to regulate the balance of payments in clearing accounts by limiting the issuance of licenses for the export and import of goods, extended violations in the equilibrium of the balance of payments are unavoidable in capitalist countries because of the chaotic development of their foreign trade and the accounts resulting from it. In connection with this, in inter-governmental currency clearing agreements in foreign trade, great importance is attached to the question of equalizing the balance of payments in clearing accounts.

In the majority of inter-governmental currency and clearing agreements it is prescribed that periodically (each quarter, half year, or year), or as is convenient, meetings should take place of representatives of the countries to review the fulfillment of mutual deliveries of goods and the status of the balance of payments. In some of these agreements, the representatives are obliged to present to their governments recommendations on measures necessary to eliminate non-deliveries which have been noted and to equalize the balance of payments in the clearing account.



In order to eliminate compulsory credit, some clearing agreements stipulate an obligation for the debtor country, in the clearing account to liquidate, on demand of the creditor country, with gold or convertible foreign exchange, the accumulated indebtedness in excess of the amount of the technical credit. It would be wrong, however, to regard these stipulations in the agreements as merely some sort of fine or forfeiture for violating the equilibrium of payments in the clearing account. For, putting aside the fact that in concluding clearing agreements, the partners sometimes intend in advance to pay for part of the goods supplied them, in convertible currency, the obligation to convert the debit balance may, in some conditions, help to develop the exchange of goods between the respective countries. As a result of this, the creditor can continue to deliver goods to the debtor country, without an apprehension of its clearing account reserves being frozen. However, the opposite is not excluded, namely, that the debtor country, not wanting to spend its currency reserves, will strive to curtail its buying in the creditor country.

In the liquidation of indebtedness in clearing accounts, present-day inter-governmental currency clearing may be divided into two types: 1) purely clearing agreements, or agreements with non-convertible debit balances, according to which the liquidation of indebtedness created in clearing accounts during the time the agreement is in force is effected by depositing in the clearing account the amounts gained from selling goods and other operations encompassed by the clearing but not in gold or foreign currency; and 2) clearing-payment agreements, or agreements with a convertible debit balance, which obligates the debtor country to settle its indebtedness which has arisen during the time the agreement is in force and which exceeds the prescribed technical credit, by means of an exchange of gold and convertible currency.

#### Gold or Currency Clauses Relative to Debit Balances in Clearing Accounts

To avoid loss in the event of a change in parity or in the quotation price of the currency in which the clearing account is carried, the practice became widespread -- after World War II -- of including in clearing agreements a gold or currency clause relative to a debit balance. These clauses stipulate that in the event of devaluation or a drop in the quotation price of the clearing currency should automatically be recomputed at the same ratio at which the change in gold parity or the official exchange rate of the respective currency took place.

#### Charging Interest on Clearing Accounts

The special accounts opened by the central banks for clearing accounts are, in principle, interest free. However, after World War II, when credit was often extended in connection

with clearing, there was prescribed in some clearing agreements the charging of interest on the amount of indebtedness in the clearing accounts which exceeded the limit of technical credit.

#### Agreements on Mutual Exchange of Currency

A special kind of inter-governmental clearing agreements are those on the mutual exchange of currencies. Such agreements became widespread after World War II, especially in the operation of the international accounts of Great Britain, France, Belgium, and other countries. On the basis of these agreements the central banks of the respective countries, acting in the name of their governments, obligated themselves to sell to one another at the exchange rate established by the agreement, the currency of their country for the currency of the contractor country in settling for goods and services mutually supplied. These agreements for the most part prescribed a certain limit of indebtedness in the accounts or technical credit, excess of which the debtor country is obliged to pay with gold or freely convertible currency for further buying of currency of the creditor country. A means of limiting this indebtedness to a more-or-less definite amount is sometimes effected by extending short-term credit, usually unilaterally, by one of the countries which have concluded the currency-exchange agreement. Agreements on the mutual exchange of currencies are formally deprived of certain marks of inter-governmental currency-clearing agreements, but in essence they lead to the same goal of accounting for mutual claims and obligations in foreign trade and other operations encompassed by it without the necessity of actually exchanging currency or gold.

#### Clearing and Foreign Trade

The diffusion of clearing in international accounting brought about a contraction in the sphere of multilateral trade and the development in the exchange of goods by bilateral channels. The majority of clearing concerns bilateral trade agreements.

The conclusion between two countries of inter-governmental clearing agreements facilitates the exchange of goods between these countries and may, therefore, bring about a decrease in trade with third countries having no such agreement with the given country. Therefore, the widening of the clearing method of international accounting is not in the interest of third countries, especially of countries with a freely convertible currency.

The system of currency restrictions and the clearing method of international accounting has served and may serve in certain cases, for Western European and other capitalist countries, as a certain barrier against the economic expansion of US monopolies in the markets of the economically weaker countries. It makes possible the regulation of the

payment balances of these countries and the limitation of operations leading to the expenditure of gold or dollars.

This explains why, after World War II, the ruling circles of the US carried on such a stubborn fight against clearing agreements and the currency limitations which brought them about.

### 3. Clearing Agreements in the International Accounting of the USSR with the Countries of the Socialist Camp

As stated above, clearing is the basic method of international accounting between the USSR and countries of the socialist camp. In as much as these countries settle accounts among themselves by clearing, the latter became the basic method of international accounting in the Socialist world market.

Despite certain similarities in form and technique, clearing of the accounts between countries of the socialist camp are basically different in their economic content and meaning from capitalist clearing procedures.

Clearing represents in this context one of the forms which arose in capitalist international trade and which, retaining its outward appearance, under conditions of socialist production relations, is filled with new content and changes its functions, adapting itself to the tasks of the fast-growing productive and foreign-trade turnover of countries of the socialist camp. At the time when in the capitalist world clearing arose with the introduction of currency restrictions and was, therefore, one of the results of the general crisis of capitalism, clearing in the accounting between USSR and the socialist countries, as well as in the accounting of these countries between themselves, is not a compulsory form of international accounting.

In the countries of the people's democracies, as in the USSR, there are no currency restrictions, since foreign trade is conducted by the government, which has no reason to restrict itself. In connection with this, the same governments take upon themselves the obligation of ensuring definite deliveries of goods. Therefore, the risk of not being able to use export receipts because of currency restrictions -- as happens in the capitalist countries, is absent here.

At the same time, clearing as a method of international accounting, based on entering mutual claims and obligations between countries which can eliminate the necessity of payments in gold or currency, is the most suitable and progressive form of accounting between countries having planned economies and governmental monopoly over foreign trade.

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The compatibility of the clearing form of accounting with the nature of mutual relations between socialist countries is conditioned by the fact that foreign trade and the payments arising therefrom are carried out in the socialist countries not by private enterprises acting independently of one another, but by governments as united economic organizations, the owners of the goods exchanged. Clearing accounts under these conditions are, then, basically accounts between united (in the person of their respective socialist governments) producers. Through clearing, the prices of the mutually delivered goods is computed. This makes possible timely measures for the equalization in the balance of payments in these accounts which, in principle, should be in equilibrium.

Differing from the capitalist countries, in which international accounting reflects upon itself the antagonistic contradictions of the capitalist economy, accounts between the USSR and the countries of the socialist camp, developed under socialist economic conditions, are not subject to these contradictions and serve the strengthening of economic cooperation of these countries, which is directed toward the general stimulation of their economies and the building of socialism and communism.

The basis of the clearing accounts in foreign trade of the USSR with countries of the people's democracies, is the mutual supply of goods. These deliveries are prescribed in special lists which are the basic part of agreements on the exchange of goods and payments or of trade agreements and the protocols based on them which are signed yearly. The economic content of the aforementioned lists are mutually agreed upon plans for the exchange of goods between the contracting parties for the specified period of time. The plans for the exchange of goods are directly connected with the national economic plans of the respective countries.

Lately, with the development of economic cooperation between the USSR and the countries of the people's democracies, a new stage has been reached due to the conclusion among almost all European countries of the people's democracies of long-term (mostly for 5 years) trade agreements. The transition to long-term trade agreements became possible after the countries of the socialist camp began to establish perspective plans of development for their national economies.

The tying in of foreign-trade exchange plans and the accounting connected with them with the national economic plan is one of the basic differences between the agreements on the exchange of goods and payments between the USSR and the socialist countries from similar agreements between capitalist countries. In the latter, foreign trade and the accounting connected with it are conducted for the most part by individual

capitalist enterprises, which are not subordinated to any regulating center and are therefore subject to the fluctuations of the market.

As a result of this, the governments of the capitalist countries which conclude agreements on the exchange of goods and payments have no means of guaranteeing the delivery of these goods to the other country as prescribed by these agreements, but merely obligate themselves within the limits of their competence to assist in these deliveries partly by issuing export licenses.

Differing from this, clearing accounts between the USSR and the countries of the socialist camp are based on firm commitments. The governments of these countries take upon themselves the obligation of ensuring the delivery of goods as prescribed in the lists. In connection with this, international accounting among countries of the socialist camp reflect in themselves the planned nature of their foreign-trade exchange.

As regards the technical structure of clearing payments in the foreign trade of the USSR with the countries of the people's democracies, as well as clearing payments among these countries themselves, they are effected on the basis of the double-account system. By carrying the clearings accounts in the banks of both countries, the absolute equality of the partners relative to the clearing accounts is guaranteed.

The State Bank USSR and the corresponding state or national banks of the respective countries of the socialist camp open for one another special (clearing) accounts in which, in each of the countries, the trade and purchasing organizations deposit the amounts owed to the trade and supply organizations of the other country for the goods or services delivered.

As a result of the adoption in 1955 of a new form of accounting -- the collection-bill form due and payable on present by the foreign-trade organizations of the socialist countries, the clearing account management system has undergone certain changes (see Chapter VI).

In the majority of clearing account agreements between the USSR and socialist countries the clearing account encompassed the following: 1) payments for goods delivered under these agreements; 2) expenses connected with the exchange of goods; and 3) other payments according to the agreements of the partners. In practice, all types, or a large part of, the accounting arising between the mentioned countries takes place through clearing.

This is explained by the fact that through clearing accounts for the current exchange of goods, at present, the liquidation of credits extended by the USSR to the socialist countries and the interest payable on them, as well as liquidation of the balance of indebtedness on special clearings for non-trade payments, is also effected.

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Differing from the clearing accounts of the USSR with almost all capitalist countries, which are carried in foreign currency, accounts of the USSR with the countries of the socialist camp are only in rubles. The ruble is not only the accounting unit for clearing, but also the currency in which the price of goods supplied on the basis of trade agreements and payment agreements concluded between the USSR and the mentioned countries are established.

The Soviet ruble, which has by law a definite gold content, and which, in the accounts of the USSR with the countries of the socialist camp, possesses buying power of the corresponding amount of gold on the world market, became the tool of international accounting not only of the USSR with the socialist countries, but also the tool of international accounting among these countries.

The ruble in international currency relations between countries of the world system of socialism is the medium of international accounting not only in the sphere of foreign-trade, but also in the sphere of credit relations and non-trade payments.

There are singularities also in the system for regulating the balance of payments in clearing accounts among the USSR and the countries of the socialist camp. Agreements on the exchange of goods and payments, and the trade relations between these countries are built on the principle of equality of mutual payments by a certain date, usually by the end of the year. Manifests -- which are plans for mutual deliveries -- are compiled with the calculation that for certain periods of time equality in the value of mutual deliveries should be achieved. The possibility of effecting this equality is based in the USSR, as well as in the countries of the people's democracies, on the planned administration of the national economy as a whole and in foreign trade in particular.

In as much as the delivery dates and corresponding payments may not coincide for various reasons shown above, as well as a result of a possible disproportion in the fulfillment of plans and for technical and other reasons, there is established in the agreements of the USSR with the countries of the socialist camp -- and in the agreements with capitalist countries -- a definite permissible period of indebtedness of the partners in the clearing accounts (technical credit), which is not regarded as a violation of the equality of payments. The amount of this technical credit is dependent on the amount of goods exchanged for the given period.

Exceeding the amount of technical credit means receiving short-term credit from the clearing partner. In connection with this, there is foreseen in the majority of agreements the charging of interest (2% annually) on the

amount of balance in the clearing account over the technical credit.

However, differing from the agreements with capitalist countries, technical credit does not have a limit beyond which the creditor country has the right to demand from the debtor country liquidation of its indebtedness in the account with gold or free currency. During the time when the respective plans for the delivery of goods are in effect, the right to demand payment in gold or currency of indebtedness in clearing accounts exceeding the technical credit is not stipulated in the clearing agreements in force between the USSR and the socialist countries. Therefore, the mentioned agreements are the non-convertible--balance type of clearing, excluding, during the time they are in force, payments in gold or currency.

Under the conditions of long-term trade agreements with the European countries of the people's democracies, the balancing of payments in the clearing account is to be achieved by the end of each calendar year, these agreements prescribe in special protocols the mutual balancing of goods deliveries at annual intervals. In balancing these deliveries, account is also taken of goods which are to be delivered in liquidation of credits and of the accumulated indebtedness in certain payments. By the conditions of the agreements now in force, the indebtedness in clearing accounts accumulated by the end of the year is to be liquidated by the debtor country by additional deliveries of goods during the first three months of the following year. In practice, by agreement between the partners, the accumulated indebtedness usually is carried over in the clearing account to the following year.

The clearing method of accounting permits the Soviet Union and the countries of the socialist camp to clear accounts with one another without payment of gold or foreign currency. Thanks to this development, goods exchanged between them do not meet with obstacles because of a lack of gold or foreign currency which causes in the capitalist countries to interrupt or curtail the purchase of goods and to curtail the intended turnover of goods.

Under the capitalist economy, with its anarchy of production and the ruling element of the market, these advantages of the clearing method of accounting can not be sufficiently realized. Bearing witness to this are the prolonged and frequent disturbances of the equilibrium of the balance of payments in the clearing accounts between the capitalist countries, which lead to curtailment of trade because of the necessity of expending the insufficient reserves of gold and free currency.

Trade and payment agreements of the USSR with the countries of the socialist camp are built, at present,



basically on a bilateral basis. However, it is desirable -- to widen this basis in order to use the advantages of multilateral trade. A certain broadening of the bilateral basis already exists in the agreements of the USSR with certain socialist countries, in which it is stipulated that the debit balance accumulated in the clearing accounts to the benefit of one of the countries could be used by it -- under conditions of the agreements between the interested countries -- for liquidation of clearing indebtedness created in the accounts of the third country.

The planned exchange of goods in trade relations of the USSR with countries of the socialist camp and the establishment of the accounts arising from this exchange of goods on the basis of clearing agreements, makes it possible to take advantage -- for the purpose of broadening the exchange of goods between these countries -- of the multilateral clearing account system.

A prototype of such a system of multilateral trade and accounting were the trilateral [sic] trade agreements concluded 29 June 1949 between the Soviet Union, Poland, Finland, and Czechoslovakia [See note]. These trilateral agreements, which included one capitalist country, Finland, prescribed definite deliveries of goods between indicated countries above the contingents established in previously concluded bilateral trade agreements. The multilateral form of accounting has become widely used only in these established supplementary deliveries of goods.

([Note:] See "Signing of the Trilateral Trade Agreements between the USSR, Poland, Finland, and Czechoslovakia," Pravda, 5 July 1949.)

In accordance with these agreements, Finland obligated herself to supply the Soviet Union with standardized houses, saw-timber, small craft, and other goods to the amount of 100 million rubles. The Soviet Union obligated itself to supply 80 million rubles of food stuffs to Poland and 20 million rubles of food stuffs to Czechoslovakia, for a total of 100 million rubles. Poland obligated itself to deliver to Finland agricultural machinery and industrial goods worth 20 million rubles.

Accounting for these deliveries took place in rubles, by way of entering the mutual claims and obligations of the countries which concluded the agreement.

These agreements, whose accounting organization has undergone some changes, were in force for a number of years and have facilitated the exchange of goods between the participating countries.

The practice of trilateral accounting is also used at present in the payment agreements between the USSR, Burma, and Czechoslovakia.

[ The broader economic ties between the countries of ]



the socialist camp create favorable conditions for organizing international accounting between them on the basis of multilateral clearing.

The system of multilateral accounting for the mutual monetary claims and obligations in foreign trade and other operations between countries eliminates the necessity of equalizing the balance of payments with each particular country as is the case with bilateral clearing accounts.

In June 1957 there was concluded between the USSR and the European countries of the people's democracies an agreement on the organization of a multilateral clearing. On the basis of this agreement there was created in Moscow, in the State Bank USSR, an accounting department (palata) which was charged with the periodic compensation of accounts between the given countries belonging to the multilateral clearing. A protocol on the technique of conducting this multilateral compensation was signed by the representatives of the state banks of the participating countries in July 1957 [See note]. ([Note:] Gosudarstvennyy bank SSSR [State Bank USSR], Moscow, Gosfinizdat [State Publishing House of Financial Literature], 1957, pages 207-208.)

The agreement on the multilateral clearing concluded in 1957 between the countries of the people's democracies kept in force the bilateral clearing agreements existing between those countries.

The object of multilateral compensation -- based on the agreement mentioned -- is the transfer of sums determined by mutual agreement which are not balanced by the annual bilateral clearing account; the transfer of separate sums from the account of bilateral agreements to the accounts of multilateral clearing with the agreement of the interested countries; and accounting for any goods offered by one country to other participating countries.

Thus, multilateral clearing is, so to speak, a super-structure of the bilateral clearing accounts which are in force among the participating countries.

The form of clearing accounts in force in capitalist international trade is successfully used by the socialist countries as a tool in the planned organization of their mutual exchange of goods and payments for the purpose of widening and strengthening the economic ties between them and furthering the building of socialism and communism.

#### 4. Payment Agreements Between the USSR and Capitalist Countries

As we pointed out earlier, the USSR began concluding payment agreements with capitalist countries in 1932, when in a number of these countries currency restrictions were introduced which threatening the use in these countries of

-receipts from Soviet exports.<sup>1</sup>

Payment Agreements of the USSR Prior to and During  
World War II

Prior to World War II, in the period 1932-1939, the Soviet Union concluded clearing-type payment agreements with Germany, Greece, Turkey, Rumania, Poland, and certain other countries.

By their character these agreements, except those with Turkey and Greece, were clearing agreements of the pure type, with non-convertible balances and not prescribing the remittance of currency for payment of indebtedness in the clearing.

The clearing accounts of these agreements, except of the agreement with Turkey, were carried in the single-account system in the countries with which the respective agreements were concluded. Accounts were opened for the State Bank USSR in the central (national) banks of these countries. In Germany, these clearing accounts were opened not in the central bank, but in six private commercial banks.

By agreement with Turkey, the clearing accounts were conducted in the double-account system. The clearing institution of the USSR was the Foreign Trade Bank of the USSR, and the clearing institution of Turkey -- its National Bank.

The clearing accounts were carried in the currencies of those countries with which the payment agreements were concluded, with the exception of Turkey, with which the clearing accounts were carried in British pound sterling.

Among the payment agreements concluded in the 1932-1939 period, a special place was occupied by the agreement between the USSR and Great Britain, which formed part of the temporary trade agreement with that country of 16 February 1934.

This agreement was neither a clearing agreement nor a payment agreement in the usual meaning of the word. Its purpose was the establishment of a definite correlation between the monetary payments and entries in the balance of payments between the Soviet Union and Great Britain.

The agreement of 1934 prescribed that the correlation of Soviet payments to receipts in Great Britain should be as follows: in 1934, 1:1.7; in 1935, 1:1.5; in 1936, 1:1.4; in 1937, 1:2; and afterward, 1:1.1.

Among the small number of countries with whom the clearing method of accounting was adopted, only Germany occupied considerable special importance in the foreign trade of the USSR. With all the other large capitalist countries, including Great Britain, the US, and France, the USSR's foreign-trade accounts were carried in that period in the currencies of the respective countries, which were at that time convertible.

World War II brought into further disarray the international trade and currency relations in the capitalist countries. During World War II, currency restrictions increased and embraced the whole international payment turnover. At the same time, in all the countries participating in the war and in the majority of the neutral countries, the foreign trade carried on at that time was a regulated trade because of the regulation of exports and imports by way of license issuing.

In these conditions, it was expedient to rebuild the trade and account relations of the USSR with the respective capitalist countries by concluding with them bilateral agreements on the exchange of goods and payments. These agreements conformed to the interests of Soviet foreign trade.

During World War II, until the beginning of the Great Patriotic War, the Soviet Union concluded bilateral agreements on the exchange of goods and payments with ten countries, including Bulgaria, Finland, Sweden, Yugoslavia, Rumania, Hungary, and others.

Their basic distinction from pre-war payment agreements consisted in their being connected with simultaneously concluded agreements on the mutual delivery of goods. In these agreements there was foreseen a definite quantity or [monetary] amount of goods which the parties to the agreement intended to deliver to one another during a definite period of time, usually in one year. The goods deliveries agreed upon between the partners were shown in separate lists attached to these agreements.

The accounts for these mutually delivered goods were carried by the clearing method. The broadening of the clearing method of accounting was also caused by the circumstance that accounting in convertible currency was made difficult during the war because of the blocking by the US government of funds in accounts in US banks, not only of enemy countries and those occupied by Germany, but also of a number of neutral countries. At the beginning of 1941 this constraint was illegally extended to Soviet funds which were in accounts in US banks.

During World War II, articles regarding goods in the agreements on the exchange of goods and payments began to mean not only the right to import specific goods into the other country, but also the obligation of the other country to take measures to ensure the delivery of these goods to the other country, particularly the obligation to issue licenses for the export of the respective goods.

In as much as the basic tasks of the agreements on the exchange of goods and payments were for the Soviet Union, to obtain the foreign goods necessary to it in exchange for Soviet goods, these agreements were built, as a rule, on the basis of equality of costs of the mutually exchanged goods.

The legally unequal position of the parties arising from the single-account system opened only in Bulgaria, was removed by the special decree of agreement to the banks of each party, extending interest-free loans to one another.

The currency in which the clearing accounts were carried was either the local currency of the USSR's respective clearing partner, or in US dollars.

In the majority of payment agreements, the clearing method of accounting was applied only to payments for goods delivered and expenses connected with it.

Many agreements stipulated an equalization of payments by both parties in the clearing accounts at 3-month intervals. In almost all payment agreements there was foreseen definite limits of permissible indebtedness in the clearing accounts. In case the established limit was exceeded the debtor country was bound, on the demand of the creditor country to liquidate the indebtedness exceeding the limit with convertible currency or gold.

The only agreement of a purely clearing type was the one on the exchange of goods and payments with Bulgaria. The other payment agreements were clearing agreements with convertible balances.

The treacherous attack of Hitler Germany on the Soviet Union caused the suspension of USSR trade relations with almost all the capitalist countries of Europe with whom were concluded agreements on the exchange of goods and payments.

The goods which the Soviet Union succeeded in obtaining during the Patriotic War in certain countries by way of ordinary commercial purchases, were paid for with convertible currency.

The clearing method of accounting was applied during the Patriotic War only to the exchange of goods between the Soviet Union and Great Britain and Iran.

On the basis of the agreement on the delivery of goods, credit, and payments which the USSR concluded with Great Britain on 16 August 1941, the accounts on the mutual delivery of goods were carried by the clearing method.

The Soviet Union's balance of indebtedness in these accounts was liquidated, by the conditions of the agreement, partly with cash and partly through the credit which the USSR obtained from Great Britain.

The agreement on payments with Great Britain prescribed the single-account system. A clearing account was opened for the State Bank USSR in the Bank of England. In the clearing were carried all payments on the exchange of goods between the two countries, as well as payments for interest and the liquidation of indebtedness from financial credit extended to the Soviet Union by Great Britain in 1936. In addition, by agreement between the two banks, payments on other accounts could also be carried in the clearing.

### Existing Payment Agreements Between the USSR and Capitalist Countries

After the end of World War II, the trade ties with European capitalist countries, interrupted during the war, were resumed and the number of countries on other continents with whom the Soviet Union entered into economic relations increased greatly. This made necessary conclusion with these countries of trade agreements which prescribed not only the conditions of trade but also the methods of payments on goods exchanged.

The employment by the Soviet Union even after the end of the war of bilateral methods of trade and accounting with the capitalist countries was caused by a continuing disorganization of international trade and international currency relations of the capitalist world.

The regulated system of foreign trade and the quantitative limitations on imports introduced during the war remained in force to a greater or lesser degree in almost all capitalist countries. The currency restrictions in foreign trade existing prior to the war and in the newly introduced restrictions in Great Britain and in the majority of the other capitalist countries during the war, continued in force in many countries even after its end. The instability of capitalist currencies, the artificiality of their quotation prices, the discrepancy in their buying power, and the chronic inflation in the capitalist countries hindered the reestablishment of multilateral international accounts.

The existence in almost all capitalist countries of currency restrictions has made it impossible for the Soviet Union, in the first years after the war, to adopt in trade relations with the majority of countries that system of accounting whose indispensable condition is convertibility of currency. However, in the past few years, the slight decrease in West European capitalist countries of currency restrictions, the introduction of convertible currency accounts in Great Britain in 1947, and in other countries in the last few years, and the creation of the European Payments Union in 1950 has created conditions for a certain expansion of trade and accounts outside the limits of bilateral trade and clearing agreements.

In connection with this, the USSR began concluding with certain capitalist countries payment agreements of a non-clearing nature, which prescribe accounting in currencies having limited convertibility.

In December 1958, Great Britain and a number of other West European capitalist countries -- France, the Federal Republic of Germany, Italy, Belgium, the Netherlands, Sweden, Denmark, Norway, Finland, and Austria -- introduced converti-

bility of their currencies for current accounts in the operations of foreigners. This meant the revocation of the currency restrictions in foreign trade existing in those countries for foreign real and legal persons, and made it possible for the latter to convert freely the export receipts and other sums due them in bank accounts into US dollars and other fully of partially convertible currencies.

The establishment of partial convertibility of the currencies of countries mentioned above makes it possible to conduct foreign trade and the resulting accounting with the respective countries on a multilateral basis. In this connection, some of the above mentioned countries might be interested in turning away from bilateral trade and the clearing method of accounting and go over to multilateral accounting and trade. For this reason, the currency relations of the USSR with various capitalist countries are organized differentially, depending on the currency policy existing in one or another country.

From this point of view can be distinguished at present the following varieties of international currency relations of the USSR with various groups of capitalist countries:

1. Accounts with the US, Switzerland, Canada, and countries of the dollar zone are carried out at present, as before, in the freely convertible currencies of those countries, i.e., into US dollars, Swiss francs, Canadian dollars, and others.

2. Accounts with Great Britain, the Federal Republic of Germany, and Italy (with whom at present the Soviet Union has no clearing agreements) have been carried from 1959 in the partially convertible currencies of these countries, i.e., British pounds sterling, West German marks, and Italian liras. The currencies of these countries can be converted freely in foreign accounts for current operations in US dollars, Swiss francs, Canadian dollars, and other partially convertible currencies, and used for payments in the US and in other third countries.

3. Accounts with countries with whom the Soviet Union has concluded clearing agreements, but whose currencies have now become partially convertible (Belgium, The Netherlands, Sweden, Norway, Denmark, France, and Austria) will be conducted as long as these agreements remain in force, by the clearing-account method.

4. Accounts with those capitalist countries which continue to maintain currency restrictions and limitations of their currencies and with whom the USSR has concluded clearing agreements, are conducted through clearing. In April 1959, 13 capitalist countries belonged to this group.

5. Accounts with countries having currency restrictions, with whom the USSR has concluded non-clearing payment

agreements, were carried to the end of 1958 in convertible, British pounds sterling, (Japan, Indonesia, Pakistan, Ceylon, Sudan, and Iraq). From 1959, British pounds sterling, in which these accounts were carried, became a partially convertible currency.

6. Accounts with other capitalist countries with whom the USSR has concluded neither clearing nor other payment agreements, are carried in separate transactions, either in convertible currencies of third countries or by way of compensational transactions and, in certain cases, in the closed currencies of these countries.

#### Clearing Agreements

By the middle of 1959 there were in force the following clearing agreements between the USSR and capitalist countries concluded in the form either of trade and payment agreements or in the form of special payment agreements: with Sweden, Norway, Denmark, Finland, Iceland, the Belgium-Luxembourg Economic Union, the Netherlands, Turkey, Greece, France, Afghanistan, Burma, Argentina, Austria, Egypt, and Syria (now the UAR), Lebanon, India, Tunisia, and Morocco. Until 1953 there was in force a clearing agreement with Italy. [Note: UAR -- United Arab Republic]

Along with the peculiarities which reflect the specifics of the economy and currency situation of the respective countries, the above mentioned agreements have many common features.

From the point of view of conditions for liquidating indebtedness which has accumulated in the clearing accounts, almost all clearing agreements concluded between the USSR and capitalist countries after the war are clearing with convertible balances. On the basis of these agreements indebtedness in clearing accounts exceeding a certain limit (technical credit), are to be liquidated by the debtor country during the time the agreement is in force with freely convertible currency or gold. An exception was the formerly existing agreement with Italy and the present agreements with Lebanon, Burma, and, partially, with the Egyptian Region of the UAR [See note]. These agreements belong to the category of clearing with non-convertible balances, as they do not prescribe the obligation to liquidate indebtedness by means of transfer of currency or gold during the time the agreements are in force.

([Note:] During the time the clearing with the Egyptian Region of the UAR was in force, which is carried by single-account system in the National Bank of Egypt, the indebtedness of the USSR above the amount of the overdraft may be liquidated with free currency, but after the cessation of the active life of the agreement, the currency indebtedness is



liquidated with deliveries of goods.)

In clearing agreements with convertible balances, the provision prescribing the procedure and conditions for converting indebtedness in clearing accounts is essential. From the point of view of conversion conditions, the clearing accounts of the USSR with capitalist countries can be divided into two kinds: a) agreements in which the creditor country is given unconditional right to demand at any time from the debtor country the liquidation of indebtedness to her exceeding the established limit with convertible currency or gold; b) agreements which prescribe the obligation of the debtor country to liquidate this indebtedness with convertible currency or gold only under certain conditions, in particular, in the event the debtor fails, within the time limit set in the agreement, to liquidate the indebtedness with deliveries of goods.

The difference between clearing agreements with unconditional and conditional conversion is that under unconditional conversion, the parties have the right to demand the immediate liquidation of clearing indebtedness exceeding the prescribed limit, but under conditional conversion they can demand it only when this indebtedness will not be eliminated during the specified time limit (for example 6 months) with deliveries of goods and entries of payments on the clearing account for other operations.

The USSR's convertible-balance clearing agreements now in force, those with Finland, Denmark, Greece and Syria, are conditional-conversion clearing. All other USSR convertible-balance clearing agreements with capitalist countries are unconditional-conversion clearings.

Of the two various conditions for the conversion of indebtedness accumulated in the clearing accounts, only the unconditional-conversion clearing fully guarantees the interests of the creditor country, giving her the opportunity of changing at any time the balance accumulated to her benefit into convertible currency or gold and use it for payments in other countries.

The necessity of prescribing in the clearing agreements with capitalist countries the conversion of the clearing balance of indebtedness into convertible currency or gold, is caused by the fact that the governments of these countries cannot fully guarantee fulfillment of the deliveries prescribed in the agreements. These deliveries are made by private capitalist enterprises acting at their own hazard and risk, and are not subordinated to any plan. The governments of the capitalist countries usually obligate themselves only to issue licenses for the import and export of the goods listed on the manifests, and to take, within the limits of the competence, other possible measures of assistance for the fulfillment of deliveries according to agreements.



The disturbances of the balance of payments in clearing accounts can be the result either of the unwillingness of foreign firms to buy the Soviet goods prescribed in the lists of the agreements on the exchange of goods, or as a result of the impossibility of concluding contracts with separate private firms for the delivery of goods because the conditions are unacceptable, or as a result of the violation by these firms of the time limits of delivery of the respective goods on already concluded contracts.

There have been cases recently where certain West European countries, under pressure from the ruling circles of the US, have carried on a policy of ceasing foreign trade with the USSR and the countries of the socialist camp and have forbidden their industrial firms to conduct trade transactions with Soviet foreign-trade organizations.

In connection with this, the right of the creditor country to demand conversion of the balance accumulated in its favor in the clearing account by way of transfer of convertible currency or gold, is for the USSR in these cases an indispensable guarantee against the compulsory crediting of another country.

The existence of such a right makes it possible for both sides to permit a certain deviation from the principle of equality of mutual payments, without having to convert the balance into convertible currency each time.

Under non-convertible-balance agreements the equalization of the balance of payments in the clearing accounts takes place during the time the agreement is in force only through the delivery of goods. In certain agreements on the exchange of goods and payments concluded by the Soviet Union with capitalist countries there is prescribed the right of the creditor country to discontinue, under certain conditions, the delivery of goods to the debtor country until the equilibrium of the balance of payments in the clearing accounts is reestablished. Such a right was prescribed, for example, in the agreement on the exchange of goods and payments concluded by the USSR and Sweden.

The stipulations explained above concern the system for regulating the balance of payments in clearing accounts during the time the respective payment agreements are in force. After the cessation of the agreements, regulation of the indebtedness which has arisen in the clearing accounts takes place, as a rule, in the following way. The central banks of the parties continue to accept entries in the clearing accounts on transactions which were concluded during the time the agreement was in force and effect the corresponding payments to the creditors. If, after closing the accounts for these transactions, a balance of indebtedness is left in the clearing account in favor of one of the

parties, then the debtor country is obliged, on demand of the creditor country, to liquidate immediately, with convertible currency or gold, the entire balance and not merely the amount exceeding the prescribed credit limit.

#### Technical Structure of Clearing

By their technical structure all USSR clearing agreements with capitalist countries now in force, except the agreements with Egypt and India, are based on the double-account system. These clearing accounts are carried in the USSR as well as in the countries with whom the respective agreements were concluded. The clearing institution in the USSR is the State Bank USSR and in the countries with whom the payment agreements were concluded, the central (national) banks of these countries or, sometimes, special clearing institutions as, for example, in Italy -- the Currency Office.

The State Bank USSR and the central bank or special clearing institution of the other country open special accounts for one another through which are carried all transactions between the two countries for operations encompassed by the given clearing agreement.

The Soviet clearing agreements with Egypt and India are built on the single-account system, carried in the National Bank of Egypt and in the Reserve Bank of India respectively. The unequal position of the parties resulting from the single-account system is eliminated to a certain extent by the fact that these banks extend to the State Bank USSR interest-free technical credit on the clearing.

In the clearing agreements concluded among capitalist countries and also in Soviet payment agreements concluded prior to World War II, payments from the clearing account to exporters took place, as a rule, only in case of there being a surplus in the clearing account of the bank which authorized payment. In the absence of funds in the clearing account, exporters and creditors of the other country were forced to wait until sufficient amounts were deposited in the account by the importers and debtors of that country. Such delay in receiving the sums owed them forced the exporters to resort to bank credit and to charge off the interest on this credit in the price of the goods.

In order to avoid an increase in the prices of foreign goods which this practice brought about, in the payment agreements concluded by the USSR after the war there is prescribed, as a rule, that all the sums owed to exporters and other creditors should be paid out immediately after being advised of the deposit of the corresponding amounts in the clearing account of the other country, regardless of whether there is a surplus in the clearing account. In the absence of sufficient

funds in the clearing account, the respective banks or clearing institutions extend credit to one another. In the majority of payment agreements of the clearing type, which the USSR concluded after the war with capitalist countries were, as a rule, simultaneously connected with agreements concluded on the exchange of goods. In these agreements the clearing method of accounting was prescribed for payments on mutual deliveries of goods and for expenses connected with the exchange of goods. These kinds of payments represent the minimal extent of clearing. However, in a number of functioning agreements the clearing method of accounting is extended outside the payments for goods exchanged to certain other kinds of payments.

Thus, the agreement on the exchange of goods and payments with Sweden, which was renewed in 1946, prescribes not only payments through clearing for goods deliveries and the expenses connected with them, but also the following payments: for transportation of the goods through the territory of the contracting parties; for chartering of Soviet and Swedish vessels and for expenses of the vessels in the ports of the two countries; for technical aid and for construction work; and for upkeep of the USSR embassy and trade mission in Sweden.

By the agreement with the Netherlands of 2 July 1948, the following are accounted through clearing: payments for goods delivered under this agreement; payments for transportation, insurance, and sea freight, and for ship repairs, and other expenses connected with trade operations; and other payments permitted by agreement between the central banks of the two countries.

After World War II, in the clearing agreements concluded between capitalist countries there can be observed a tendency to carry a wider range of payments through clearing. This tendency has permitted the Soviet Union to widen the extent of payments carried in clearing in its agreements on payments with various capitalist countries. An example is the agreement concluded in 1953 between the USSR and France.

By the agreement with France the clearing method of accounting was extended to the following payments: for goods; other payments connected with trade operations; for sea, river, and air transportation, and for port and forwarding services; for insurance and reinsurance; for repair of ships; payment of interest and dividends; expenses for travel of a trade and cultural nature and for travel of official delegations; for the upkeep of the embassies of the two countries and of the USSR trade mission in France; transfer of pensions and private alimony; and other payments of a non-trade nature (transfer of inheritances and funds gained from the sale of

property) by agreement between the banks.

Less broad is the extent of payments covered by clearing in the 1953 agreement with Egypt. The clearing accounts extend, under this agreement, to: payments for goods exchanged; expenses connected with the exchange of goods; expenses of diplomatic, trade and consular representatives; expenses for travel for official purposes; and other payments by agreement between the banks.

In all USSR clearing agreements, as in the agreement with Egypt, it is stipulated that by agreement between the State Bank USSR and the central (national) bank or clearing institution of the other country, the clearing method of accounting may be extended to other types of payments among the countries, in addition to those indicated in that payment agreement.

The development of the practice of long-term (3-5 years) trade agreements with a number of capitalist countries, in which the accounts are carried by the clearing method (with Finland, Austria, and France), means the broadening of the clearing method of accounting. On the other hand, a weakening of the connection between clearing accounts and special goods contingents prescribed in the lists of mutual goods deliveries drawn up yearly can be observed. With individual countries and in special cases, deliveries of goods prescribed in the lists attached to the annual protocols signed by the partners are being replaced by the practice of trade beyond the lists by concluding separate transactions for the sale of goods, but with accounting for them through clearing. In the majority of cases this takes place in the trade with countries with whom the USSR has concluded clearing agreements with unconditional conversion of balances. In connection with this, for the supplier country such transactions are equivalent to selling for free currency, if during a short period of time the other country does not cover the balance with deliveries of goods.

#### The Currency of Clearing Accounts

In the clearing agreements concluded between the USSR and capitalist countries the currency of clearing is, as a rule, foreign currency. An exception is the agreement with Finland, according to which the clearing currency is the Soviet ruble, with an indication of its gold content. Another exception is the payment agreement with Lebanon, according to which the clearing accounts are carried in the USSR in rubles and in Lebanon in Lebanese pounds sterling.

Clearings carried in foreign currencies can be divided into those whose currency is the national currency of the clearing partner and those which are carried in the currency

of a third country. National currency is prescribed in the clearing agreements of the USSR with Sweden, Denmark, Norway, Iceland, The Netherlands, the Belgium-Luxembourg Economic Union, France, Egypt, India, Tunisia, and Morocco. Those in the currency of third countries -- in US dollars -- are the clearing accounts with Afghanistan, Austria, Argentina, Greece, and Syria; and those in British pounds sterling, with Burma and Turkey.

In the USSR, Soviet foreign-trade organizations pay the State Bank USSR in rubles for the goods bought in another country, no matter in what currency the clearing is carried, and they also receive rubles from the State Bank for the goods they sold to the organizations and firms of other countries. In the same way are accounts carried in the countries with whom the USSR has concluded clearing agreements.

The State Bank USSR and the corresponding central (national) bank or clearing institution of the other country render -- at the going quotation price -- the amounts entered or paid out in their local currency into the currency of the clearing accounts of the given agreement.

In purely clearing operations, which do not permit conversion of the balance into convertible currency or gold, the currency in which clearing accounts are carried is a closed currency.

If, as is prescribed in the majority of clearing accounts concluded between the USSR and capitalist countries, the creditor partner in the clearing accounts has the right to demand conversion of the balance accumulated in its favor into convertible currency or gold, then the clearing currency becomes a convertible currency. However, this convertibility is limited only by the amount of the balance exceeding the established technical credit. These amounts are liable to liquidation with gold or freely convertible foreign currency.

As much as the prices for the goods supplied by the agreement on the exchange of goods and payments may be established in the contracts concluded between the Soviet foreign-trade organizations and foreign firms or organizations, not in the clearing currency but in some other currency, in a number of payment agreements concluded by the USSR there is prescribed the ration at which this currency should be converted into the clearing currency.

#### Regulating the Balance of Payments in Clearing Accounts

##### Technical Credit

USSR clearing agreements with capitalist countries are based on the principle of equality of payments of the countries in the clearing accounts for definite (half-year,

yearly) periods of time.

In concluding clearing agreements with individual countries, the Soviet Union usually has no intention of providing them credit in any form, or of making use of their credit. The purpose of these agreements is to obtain, in exchange for Soviet goods, a definite amount of foreign goods.

Short-term imbalances in the balance of payments in the clearing accounts are inevitable for the many reasons shown above (see Section 2), principally because it is impossible to coordinate the amounts and dates of mutual deliveries in such a way that the payments of each of the partners should always equal the other's.

For this reason, in the clearing agreements concluded by the USSR with capitalist countries there is prescribed a definite limit of indebtedness in the clearing accounts which is not regarded as a violation of the equality of the balance of payments. Within the limits of the corresponding amount the State Bank USSR and the central bank or clearing institution of the other country extend one another interest-free credit.

The amount of this technical credit is usually established depending on the amount of goods exchanged among the countries which have concluded the given agreement, as well as in dependence on the nature of the goods supplied by them to one another and on other factors which could lead to a lapse in time between the mutual deliveries of goods.

In a number of clearing agreements now in force the amount of technical credit is established on the following scale: in the agreement with Sweden, at 500,000 Swedish krona or 385,000 rubles; with the Belgium-Luxembourg Economic Union at 20 million Belgian francs or 600,000 rubles; with the Netherlands, 2 million guilder or 2,105,000 rubles; with France, 15 million US dollars or 60 million rubles; with Argentina, 11 million US dollars or 44 million rubles; with Afghanistan, 200,000 US dollars or 800,000 rubles; with Greece, 1 million US dollars or 4 million rubles; with Finland, 60 million rubles; and others.

Indebtedness in the clearing accounts exceeding the established limit must be liquidated by the debtor country during the time period indicated in the agreement.

In the majority of payment agreements there is prescribed a review by the representatives of both parties of the fulfillment of mutual deliveries and the balance of payments in the clearing accounts. Such a review takes place at previously established periods (every three months, six months), or as convenient. In certain agreements it is established that the representatives should also recommend to their governments measures necessary to reestablish the equilibrium of

payments in the clearing accounts which have been disturbed by one of the partners and for the complete fulfillment of deliveries prescribed in the agreement on the exchange of goods.

#### Computing Interest in Clearing Accounts

In a number of clearing agreements concluded between the USSR and capitalist countries there is prescribed the charging of interest on indebtedness accumulated in the clearing accounts exceeding the established limit. If the creditor partner, having the right to demand conversion of the balance into convertible currency or gold, refrains from exercising this right, then it means that the partner has extended credit to the debtor partner for the corresponding amount. The extension of such credit gives the creditor the right to demand payment of interest. By agreement between the USSR and certain capitalist countries, 2% annual interest is charged on this indebtedness in clearing account.

Receiving interest permits the creditor country to maintain the corresponding amounts in the clearing account and not to demand their conversion into convertible currency or gold when there is no need for it. Credit extended in such form is called demand credit.

The amounts in the clearing accounts exceeding the limit of indebtedness established in the agreement, though expressed in the appropriate clearing currency (usually in the local currency of the clearing partner), may be regarded -- as a result of the right of the creditor to conversion -- as funds in convertible currency, even if the given currency is not fully or partially convertible. With the existence of a gold clause, these amounts are guaranteed against devaluation.

#### Guarantees Against Devaluation of the Clearing Currency.

The normal functioning of the clearing accounts presupposes a certain stability in the clearing currency. As a result of the instability in capitalist currencies in the conditions of the deepening general crisis of capitalism after World War II, the danger that the amounts in the clearing accounts of the USSR, represented in foreign currencies, would lose their value was not excluded.

To avoid this, in the agreements concluded between the USSR and capitalist countries, there is a gold or currency clause. In the event of devaluation or some other drop of the clearing currency price, the balance of indebtedness accumulated in the clearing accounts is to be automatically recomputed, on the basis of these clauses, at the same ratio at which the change in parity or official rate of this currency took place.

In the majority of the above mentioned agreements, the



gold clause serves as a means of ensuring the balance from de-evaluation.

Rarer for this purpose is the inclusion, not of a gold, but of a currency (dollar), clause.

An example of a gold clause stipulated in the mentioned agreements is the text of the clause in the payment agreement concluded between the Soviet Union and the Belgium-Luxembourg Economic Union on 18 February 1948.

"If the parity of the Belgian franc (56,263,793 Belgian francs equals one kilogram of pure gold) relative to gold should change, then the balance accumulated in the accounts described in Article 6 shall automatically change on the day of occurrence of said change of parity in the same proportion as the change in parity."

Due to its monopoly of foreign trade it is possible for the Soviet Union to regulate its trade and the resulting accounts with the capitalist countries in such a way as to avoid accumulation in the clearing accounts of any indebtedness relative to these countries.

The advisability of including gold or currency clauses in agreements on the exchange of goods and payments with capitalist countries was clearly confirmed during the mass devaluation of capitalist currencies in September 1949. The devaluation was effected, in part, in all capitalist countries with whom the Soviet Union had concluded clearing-type agreements. Due to the gold and currency clauses the Soviet Union, which had credit balances in its clearing accounts with these countries, succeeded in avoiding losses which would have been unavoidable otherwise as a result of the devaluation of the currency of the countries mentioned. By the force of the gold and currency clauses, the balances accumulated in the accounts were recomputed either by raising the price of gold or by raising the exchange rate of convertible currency in the currency of these countries.

Such a recomputation was made in accordance with the stipulations of the clearing agreement concluded between the USSR and France after the French franc underwent a devaluation of 15% in December 1958.

The gold and currency clauses prescribed in the above mentioned agreements are bilateral, i.e., they are effective in the event of either lowering or raising the price of the respective currency. However, instances of rises in the price of capitalist currencies, as was pointed out earlier, are a very rare occurrence.

#### Non-Clearing Type Payment Agreements

The conclusion of payment agreements of a non-clearing



type with the various capitalist countries was conditioned by the slight decrease in these countries of currency restrictions and their transition to accounts in "transfer" currencies and, later, to accounts in currencies with partial convertibility.

The most significant of the agreements of this sort was the 1947 payment agreement with Great Britain. On the basis of this agreement, the Soviet Union was extended in Great Britain the system of "transfer accounts" in pounds sterling in British banks. USSR balances in pounds sterling in these accounts could be transferred freely to the pound-sterling accounts of the countries of the sterling bloc, as well as to the accounts of all other countries taking advantage of the right of "transfer accounts." Almost all countries made use of such accounts. Balances in the transfer accounts in British pounds sterling could be converted freely by the USSR into the currencies of other capitalist countries -- except into US dollars, Swiss francs, and Canadian dollars -- as well as into the currencies of some Latin American countries of the dollar zone.

The system of transfer accounts widened considerably the sphere of international conversion of the British pound sterling, turning it into a currency which was convertible into a large number of capitalist currencies. At the same time, in practice, British pounds sterling could even be converted into US dollars by selling them for the latter on the private-currency market in New York and Zurich with some discount (1-2%) on the official quotation price.

Similar payment agreements were concluded in 1957 by the USSR with Italy and the Federal Republic of Germany.

With Italy there existed until 1957 a clearing agreement with non-convertible balances. On the basis of the trade agreement concluded between the USSR and Italy at the end of 1957, foreign-trade accounts between the two countries began to be carried not in clearing, but in Italian lira, with limited convertibility. Balances in the USSR's current accounts in Italian banks in lira could be freely transferred to accounts in the lira-country members of the European Payments Union.

On the basis of a trade agreement concluded between the USSR and the Federal Republic of Germany (FRG) at the beginning of 1958, foreign-trade accounts and those for other current operations were carried in Deutsche Marks. USSR balances in accounts in FRG banks in marks could be transferred freely to marks in the transferrable accounts in other countries and converted into all capitalist currencies with the exception of US dollars, Canadian dollars, and Swiss francs.

Trade-payment agreements were concluded with some

capitalist countries which prescribe the carrying of accounts between the USSR and these countries in foreign trade and operations connected with it, directly in British pounds sterling (in transferrable accounts). Such agreements were concluded with Indonesia, Japan, Ceylon, Iraq, and Sudan. After the conversion of the British pound sterling, at the end of 1958, into a partially convertible currency for the accounts of foreigners, accounts with these countries became accounts in partially convertible pounds sterling.

The characteristic feature of non-clearing type payment agreements with the countries mentioned is that foreign-trade accounts of the USSR with these countries are carried neither in the clearing system nor in their national currencies, but in the currency of a third country -- British pounds sterling -- which became at the end of 1958 a partially convertible currency for current accounts.

The changeover at the end of 1958 of the British pound sterling and the currencies of West European capitalist countries (with the exception of those of Iceland, Spain, Greece, and Turkey) into convertible (for current operations) currencies in the accounts of foreigners created a new condition in the international currency relations with these countries. Because of the partial convertibility of their currencies, the sphere of multilateral trade and accounting widened, which was in agreement with the foreign-trade interests of the USSR. In the event of a credit foreign-trade balance with one or another of those countries, the USSR could use it for payments in third countries when the balance of payments with them was not in its favor. The surplus of pounds sterling resulting from a credit balance of payments with Great Britain could be, for example, converted into US dollars by the USSR and spent for purchases of goods in the US. The possibility of multilateral accounts eases the trade maneuvering in capitalist goods markets for the USSR.

The USSR has concluded clearing agreements with most of the countries which have established partial convertibility of their currencies (France, the Belgium-Luxembourg Economic Union, The Netherlands, Sweden, Denmark, Finland, and Austria). The introduction of partial convertibility of the currencies of these countries does not by itself mean the cessation of the agreements on clearing accounts. Nevertheless, amounts in the clearing accounts in the currencies of these countries will be freely convertible only if they exceed the limit of technical credit established in the corresponding agreements. At the same time it is not excluded that some of these countries will reject clearing accounts with the USSR and will want to go over to accounts in their partially convertible currencies. In this case, the USSR is deprived of the possibility of using in the accounts with the countries

the amount of technical credit permitted in clearing. To ensure payments on current foreign-trade and other operations, the State Bank USSR will have to maintain in its agential (korrespondentskiy) accounts in the banks of these or other countries with whom it has no clearing accounts sufficient reserves in the corresponding, partially convertible currencies. In practice it will mean the necessity of increasing the USSR's reserves of foreign convertible currency.

The currencies of West European capitalist countries which, at the end of 1958 became convertible for current operations, do not have sufficient stability. The introduction of convertibility was brought about not by a basic improvement of the economic and currency situation of Great Britain and other countries, but by the action of temporary factors. Thus, for example, Great Britain's balance of payments situation improved in the main as a result of the decrease in prices of the raw materials it imported as a result of the crisis, and because it received considerable foreign credits. It is not excluded that with a change in the favorable conditions on the capitalist world market, some of the partially convertible currencies could lose their value and/or again become non-convertible currencies. For this reason, foreign-trade organizations of the USSR must take into account the possible currency risks when concluding trade and credit transactions in the currencies of the aforementioned countries and to adopt appropriate measures to prevent them.

## CHAPTER VI

### TECHNIQUE OF CONDUCTING THE USSR'S INTERNATIONAL ACCOUNTING BY THE STATE BANK

In conformance with the USSR's currency legislation, based on the principle of governmental monopoly of currency, the international accounts of the USSR are carried through the State Bank USSR and partially through the Foreign Trade Bank USSR.

The international accounts of the USSR are carried at the present time by the State Bank in the form of clearing accounts prescribed by the clearing agreements concluded between the USSR and the respective countries, as well as in the form of ordinary bank drafts and transfers outside clearing, which take place through the agential accounts of the State Bank USSR in foreign banks.

The majority of accounts carried outside clearing are carried by the State Bank through foreign banks which are the correspondents [agents] of the State Bank (or the Foreign Trade Bank). Such correspondents exist in all foreign states with whom the Soviet Union maintains trade relations or other forms of economic ties.

The correspondents of the State Bank USSR and the Foreign Trade Bank are the largest and most solid banks of the respective countries. Principally, these banks are private commercial banks, but in some countries the agential authority of the State Bank for foreign-trade accounts is also conducted by the central (national) banks.

For accounts carried outside clearing, transfers of foreign currency from the USSR abroad and from abroad to the USSR may take place either through the State Bank's agential accounts in foreign banks or through the agential accounts of foreign banks in the State Bank.

Foreign agential accounts are current accounts of the banks of a given country, which are opened in the banks of other countries for the purpose of fulfilling payment orders, transfers, letters of credit, commissions, bills of collection, and other orders placed by banks on one another.

It is necessary to distinguish between agential accounts "Nostro" (our accounts) and "Loro" (their accounts). From the point of view of the State Bank USSR, agential accounts "Nostro" are those accounts opened for the State Bank in foreign banks. Agential accounts "Loro" are those opened for foreign banks in the State Bank. From the point of view of the respective foreign banks, the State Bank's "Nostro" agential accounts opened by it in those banks will be "Loro" accounts to those banks; and the "Loro" accounts opened in the State Bank by the foreign banks will, to the foreign banks, be "Nostro" accounts.

Agential relations between the State Bank (or Foreign Trade Bank) and foreign banks can be bilateral or unilateral. Agential relations have a bilateral character when the foreign bank in which an account is opened for the State Bank, opens in turn an agential account in the State Bank. Agential relations are unilateral when an agential account is opened for the State Bank USSR in the foreign bank, but the foreign bank has no such account in the State Bank; or, the foreign bank has an agential account in the State Bank but the latter does not have such an account in the foreign bank.

In the countries with which the USSR has no clearing-type payment agreements, in the State Bank's agential accounts "Nostro" in the foreign banks are deposited the amounts received in payment for Soviet goods sold in these countries, as well as any other monetary accretments deposited to the credit of Soviet foreign-trade organizations and governmental institutions of the USSR in the respective country.

For the amount in foreign currency deposited in the agential account "Nostro", the State Bank opens in foreign banks letter-of-credit accounts and effects on order from foreign-trade organizations and other Soviet economic organizations and institutions payments to foreign suppliers for the goods purchased from them, payments for trade and transportation expenses, for interest and liquidation of credit obligations, as well as effecting monetary transfers of a non-trade nature from the USSR abroad.

Some of the accounts for Soviet export and non-trade operations may also be carried in agential accounts "Loro" opened in the State Bank by foreign banks. Thus, when the foreign bank has an agential account in the State Bank, foreign buyers of Soviet export goods can open through the respective banks letter-of-credit accounts in the State Bank USSR and can also effect through this bank other payments in favor of Soviet economic organizations and institutions. For funds in the "Loro" accounts, the State Bank can also effect payment orders from foreign banks for non-trade operations.

In all cases, in order that a sufficient surplus be created in the "Loro" account of a foreign bank in the State Bank, against which account the State Bank can effect orders from its foreign agent for letters of credit and transfers, it is necessary that the foreign bank first deposit the corresponding amount of foreign currency in one or another "Nostro" account of the State Bank in the given country.

Thus, even as regards carrying certain payments in a "Loro" account, the amount of foreign currency has first to be deposited in the "Nostro" account abroad of one or another foreign agent of the State Bank. The accumulation of funds in the "Loro" accounts of foreign banks in the State Bank USSR may also arise from deposits in those accounts of foreign currency owed by Soviet buyers of

foreign goods, if this is prescribed in the given contract.

An agential account "Nostro" of the State Bank can be opened either in the currency of the country of the respective foreign bank or in the currency of a third country. A "Loro" account of a foreign bank in the State Bank USSR may be opened either in rubles or in foreign currency.

In order to ensure punctual payment of the foreign credit and trade obligations of Soviet economic organizations and institutions, the State Bank keeps in its agential "Nostro" accounts in foreign banks surpluses of the respective foreign currencies.

The funds kept by the State Bank in various foreign currencies in its safes and in agential "Nostro" accounts in foreign banks form part of the currency reserves of the Soviet Union.

The foreign-trade and credit obligations of the USSR are expressed in various foreign currencies. For this reason the State Bank USSR must always keep an eye on the state of its currency reserves in every foreign currency and to take timely measures for the conversion of currency which it has in abundance into currencies whose surplus is not sufficient to meet urgent current obligations in those currencies.

In carrying out these operations it is possible for the State Bank USSR to base itself on the plans of the USSR's balance of payments, in which are foreseen future deposits as well as payments which will deplete the reserves of certain foreign currencies.

At the present time the majority of the USSR's international foreign-trade accounts are carried by way of clearing accounts. Special (clearing) accounts opened by the State Bank for the central banks of the respective countries, as well as special accounts opened by the foreign central banks for the State Bank, are a special form of agential accounts.

The most important feature distinguishing clearing accounts from regular agential accounts is that the conduct of certain accounting through clearing accounts is obligatory for the real and legal persons of the countries which have concluded a clearing agreement between themselves. Avoidance of accounting through clearing is regarded as an infraction of the law. In the absence of a clearing agreement between the respective countries, exporters and importers of those countries may settle accounts with one another either directly, without the participation of the banks, or through the banks of the two countries. In this case, the appropriate accounting will be handled through the regular agential accounts.

At the same time, in distinction from regular agential accounts through which may be carried any accounting and operations between banks, through the clearing accounts may take place only deposits and payments of funds for those operations which are prescribed in the clearing agreements with the respective countries.

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The agential relations of the USSR with foreign central banks as regards clearing agreements have, as a rule, a bilateral nature, as in almost all of these agreements the double-account system is used.

In the double-account system the technique of clearing accounting prescribed in the USSR's respective clearing agreements with capitalist countries consists of the following.

Soviet foreign-trade and other economic organizations and institutions deposit the amounts they owe to the firms, organizations, and institutions of the other country for goods supplied, services rendered, and for other operations encompassed by the given clearing agreement in the special (clearing) account of the central bank of the other country which has been opened in the State Bank USSR.

In turn, the amounts owed to Soviet foreign-trade organizations and other governmental organizations and institutions for goods sold, services rendered, and for other accounting encompassed by the clearing, are deposited by the foreign firms, organizations, institutions, and persons in their own country, in the special (clearing) account opened for the State Bank in the central bank of that country. The State Bank USSR and the corresponding foreign central bank notify one another of all amounts which have been deposited in those special (clearing) accounts. After receiving such notification the State Bank USSR and the corresponding foreign central bank or clearing institution immediately pay out in their own currency the amounts deposited in the other country to the enterprises, organizations, institutions and persons to whom these funds are due.

The technical system of clearing accounts described is applied at present only to the USSR's accounts with the capitalist countries with whom bilateral clearing agreements were concluded. With the countries of the socialist camp, this system has undergone certain changes after the introduction in 1955 of a new form of accounting for export and import transactions -- the "bill of collection with immediate payment" form. With this new form of accounting, the transfer of funds in clearing accounts begins in the central bank of the country which has sold the goods, i.e., the exporting country, and not in the bank of the buyer (importing) country, as in other forms of accounting.

The central bank of the exporting country pays the seller of the goods immediately after they have been presented to it, and debits that amount to the clearing account of the bank of the buyer country, sending it the goods invoices together with the Notification. On receiving them, the bank of the buyer country collects from the buyer the amount paid out to the seller by the bank of his country and credits the clearing account of the bank of the seller country. During trade operations, the accounting connected with it is thus terminated. The paying out to

the seller is effected by the bank of his country independently of the status of the clearing account in the bank of the buyer country.

Conducting this accounting through special (clearing) accounts does not always mean, however, that the State Bank ceases using the services of its regular foreign agents, i.e., the private commercial banks of the country with which the clearing agreement was concluded. In a number of capitalist countries the central bank or clearing institution carrying the special (clearing) accounts does not ordinarily deal with letters of credit, bills of collection, and other operations connected with servicing foreign-trade accounts. For this reason the State Bank, despite the existence of a clearing agreement with a given country, opens a letter-of-credit account and gives bill-of-collection authority not to the central bank carrying the clearing accounts, but to the private commercial banks which are its agents in the respective country. In this case, the State Bank, giving authority to the foreign agent-bank to open for the State Bank a letter-of-credit account in favor of the foreign supplier of goods, credits its special (clearing) account for the foreign central bank or clearing institution, giving the latter authority to repay the private commercial bank in which the letter-of-credit account was opened all amounts that the latter will pay out on the basis of this letter-of-credit to the sellers.

With bill-of-collection authorizations, the private commercial agent-bank deposits the amounts received from collecting on invoices for goods in the special (clearing) account of the State Bank which was opened in the central bank or clearing institution of the respective country.

If a letter-of-credit account is opened by the private foreign bank in the State Bank in Moscow, then that bank is obliged to deposit the appropriate amount to the credit of Soviet economic organizations in the special (clearing) account of the State Bank in the central bank (or clearing institution) of its country.

As regards clearing accounts with the countries of the socialist camp, in which clearing institutions are always the central banks of the respective countries, such a situation does not exist. The central banks of these countries are, as a rule, the only banks of short-term credit, servicing all foreign-trade accounts. For this reason, bill-of-collection and letter-of-credit authorizations are given by the State Bank USSR directly to the central banks of the countries of the socialist camp.

In certain capitalist countries with which the Soviet Union has concluded clearing agreements, the possibility exists of opening letter-of-credit accounts and of giving bill-of-collection authorizations to the central banks of these countries.



Various special accounts for the accounting of operations which do not pass through clearing may also be opened by the State Bank USSR, along with the clearing accounts. Such accounts are usually established for reflecting payments and credits, receivable and payable by the Soviet Union.

In addition to this, supplementary accounts are sometimes established for the accounting of non-trade transactions among the socialist countries. Such supplementary accounts provide a better means of controlling the non-trade accounting and tie-in better with the cargo shipments. The majority of the non-trade accounts are conducted, as indicated above, through the Foreign Trade Bank USSR, which maintains agential relations with foreign banks for this purpose.

The conduct of all international accounting of the USSR through the State Bank as well as the principle of unity of the currency resources constitute two of the most important advantages of the socialist system of international accounting.

[NOTE: Chapter VII is not included  
in this translation.]

## CHAPTER VIII

### INTERNATIONAL CREDIT RELATIONS OF THE USSR AFTER THE SECOND WORLD WAR

1. Credit Relations with Capitalist Countries during  
the Period of the Struggle of the Party for the  
Reconstruction and Development of the Socialist  
Economy after the Second World War (1945-1953).

After the victorious ending of the Great Patriotic War, which resulted in the complete military destruction of Hitler Germany and imperialist Japan, there arose before the people of the USSR the urgent problems of speedy reconstruction of the stricken areas of the country and of rebuilding and markedly raising production in industry and agriculture. Solving these problems was indispensable for the further progress of the USSR toward communism, which had been interrupted by the war.

The treacherous attack of Hitler Germany had inflicted upon the Soviet economy heavy losses, which together with war expenditures and temporary losses from industry and agriculture in the occupied zones, ran to 2,600 billion rubles. The reestablishment of this war-damaged national economy required expenditure of vast resources, the size of which can be judged by the capital investment figures of the first post-war five year plan. Thanks to the advantages of a socialist economy and the economic vigor and independence that it had attained, the USSR was able to solve these problems with its own resources. These capital investments were made possible by accumulated surplus funds and the resources of the Soviet economy.

However, this did not mean a refusal to make use of foreign resources in the form of imports of industrial equipment and other products, when such imports could help speed up the tempo of fulfillment of the goals set by the 5 year plan. One condition which could favor a marked increase in imports to the USSR after the war was foreign credits. The Soviet government did not refuse foreign

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credits on acceptable terms, considering not only its immediate interests in developing the Soviet economy, but also the fact that foreign ties, in trade and credit, based on equal rights of the contracting parties, favor the development of international economic cooperation and strengthen international peace.

The Soviet government never objected to making use of foreign credits, and in particular, credits from the US, as a means of accelerating economic reconstruction. However, the Soviet Union always proceeded from the premise that the terms of the credits should not have a servile character and should not lead to the economic and political enslavement of the debtor by the creditor nation.

Taking advantage of US credits to speed up economic reconstruction in the USSR seemed impossible as a result of the humiliating conditions that reactionary circles in the US strove to impose on borrower countries. Under their influence, foreign credits became one of the weapons of imperialist expansion and aggression, a means of subjugating the debtor nations and subordinating their economic and political policies to the interests of the financial oligarchy of the US.

After the Second World War, with the world split into two camps, the ruling circles of the US, who led the imperialist and anti-democratic camp, adopted an extremely hostile position toward the Soviet Union, which now stood forth as a bulwark of peace for the whole world. One manifestation of this hostility toward the USSR on the part of the government of the US appeared, in particular, in its deliberate non-fulfillment of its obligations under the credit agreement of 15 October 1945. The credits were not fully used up, because in December 1946, the US government unilaterally stopped the supply of equipment agreed upon on 15 October 1945, thus violating its obligations. Other manifestations of US hostility toward the USSR were its interference in the Soviet-Swedish negotiations concerning the conclusion of trade and credit agreements (the aim of the US being the disruption of these agreements) and the US government's renunciation of the Soviet-American trade agreement.

The US government's attempt to prevent the conclusion of trade and credit agreements between the USSR and Sweden and to divert Sweden from any trade relations with the Soviet Union failed. [See note #1.] Nevertheless, the ruling circles of the US continued using pres-

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sure on Swedish manufacturing and banking interests in order to disturb the normal course of fulfillment of the already concluded credit agreement. [See note]

[[Note:] Pravda, 3 September 1946, "The Question of Soviet-Swedish Trade Negotiations." Also, "A Swedish Newspaper on the Interference of the US in USSR Trade Negotiations."]

[[Note #2.] Striving to disrupt the conclusion by Sweden of the trade and credit agreements with the Soviet Union the government of the US officially interfered in the Soviet-Swedish trade negotiations, directing to the governments of the USSR and Sweden on 17 August 1946, a note unprecedented in international relations. In this note the US government called the attention of the USSR and Sweden to the fact that it would be disadvantageous to both sides to conclude bilateral long term trade agreements, that that would, so to speak, lead to trade discrimination against third countries and would impair the aims and purposes of the planned international conference on business and trade. The interference of the US in the Soviet-Swedish trade negotiations through an attempt at outright violation of the sovereignty of the negotiating governments was, of course, rejected not only by the USSR but by Sweden as well.)

Disregarding the credits received from the US in accordance with the agreement of 15 October 1945, tied in as they were with the period of the war (1945-1953), new credits were extended the Soviet Union by only one capitalist country--Sweden. In accordance with this agreement of 7 October 1946, the government of Sweden extended the USSR a credit of one billion Swedish kronen, to be drawn upon over a period of five years, in payment for Swedish supplies of industrial equipment and some other payments by the USSR in Sweden. (Pravda, 9 October 1946, "The Signing of Credit and Trade Agreements between the USSR and Sweden.")

What these Swedish supplies on credit were to be was provided for in a statement attached to the general agreement. Included were such items as hydroelectric and steam-electric station equipment, machinery for the ore extracting and refining industry, the lumber and peat industries and for home building and the manufacture of construction materials, as well as locomotives, fishing trawlers and other types of equipment. In addition, a small part of the credit was assigned to freight and assembly expenses, technical assistance, and for the payment of some pre-war accounts of the USSR and

Sweden.

Provision was also made in the credit agreement for introducing, after due consultation, changes in the list of supplies to be paid for by the credit. The prices of the goods covered by the credit account were to be established by contracts based on agreements made between the foreign trade departments of the USSR and the Swedish supplying firms.

The credit funds for the five year period were to be drawn upon, as far as possible, in equal parts, i. e., 200 million kronen a year. The unused part in any given year could be added to the following year, provided however, that the total sum did not exceed 300 million kronen for any one year.

The following terms for the repayment of the loan were provided for in the agreement. It was to be liquidated in 15 years, and the official rate of interest was set at 3% annually. However, inasmuch as it was stipulated in the agreement that there should be no interest charges for the first three years, added to some other stated conditions, the average interest rate was actually about 2.375% annually.

The arrangements of the Swedish loan of 1946 were somewhat different from those of the similar loan extended to the USSR by Sweden in 1940. Under the 1946 agreement, the USSR Trade Mission in Sweden, as the need arose for means to settle accounts with the supplying firms for goods payable under the terms of the loan, and also to make other payments provided for in the treaty, gave promissory notes to the Swedish Government Bank (Riksbank). The latter, after making appropriate payments to the Swedish creditors, entered the sum paid out as a debit in a special interest free account which was opened for the USSR Trade Mission by Sweden. At the end of each quarter the Trade Mission was obliged to liquidate its indebtedness through a special account, handing over to the Swedish government 15 year promissory notes. The promissory notes signed by the Trade Mission were made out in the name and to the order of the Swedish Government Bank in amounts of 100,000 kronen or multiples thereof. The term of the credit was figured from the moment the promissory notes were issued. The interest on the promissory notes was paid, after the third year, at the rate of 3% annually, payable semi-annually.

The liquidation of the promissory notes could be accomplished through Swedish kronen, the proceeds of the

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sale of Soviet goods in Sweden, or by means of gold or converted currency. The privilege on the part of the Soviet government to liquidate its obligations before the expiration date was provided for in the agreement.

To help liquidate the Soviet obligations, the Swedish government assumed the responsibility of issuing permits for the importation from the USSR of such goods as were usually imported into Sweden. Credit extensions and settlement of accounts with Swedish firms took place through a clearing agency which was set up by a working agreement dealing with the exchange of goods and payments between the two countries. On the other hand, the liquidation of the loan and the payment of interest were conducted through a balancing of accounts with the clearing agency.

It is necessary to note that the credit agreement with Sweden was tied to an active extension, for a five year term, of an agreement on exchange of goods and payments concluded 7 September 1940. In this agreement provision was made for both sides to adjust reciprocally the lists of orders for merchandise for a twelve month period.

The Swedish loan of 1946 belongs in the category of purely financial credit. Also it was purely a government loan. Both the lender and the borrower are governments, inasmuch as the Swedish Government Bank, through which credit was extended, was an organ of the Swedish government, just as the Trade Mission of the USSR in Sweden was an organ of the Soviet government.

The loan had a strictly specific character. The use of the loan was limited to orders for goods and expenditures, all listed in the statement attached to the principal agreement.

The list of goods contracted for, subject to payment from the credit funds, was important not only for the exports from Sweden, but stipulated an obligation on the part of the Swedish government to cooperate as far as was in its power in stimulating orders for USSR goods.

Although, as it turned out, only a little more than half of the Swedish loan was used up, it played a positive role in reestablishing and promoting international economic relations disrupted by the Second World War, and conformed to the economic interests of both the Soviet Union and Sweden.

As is well known, after the war the ruling circles of the US adopted a policy that was contrary to the

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interests of international economic cooperation. Toward the Soviet Union and the people's democracies they adopted a policy of discrimination, disrupted trade relations, and promoted economic and financial boycotts.

In spite of the countless losses inflicted by the war, the Soviet Union, in a short historic time, reestablished its national economy with its own accumulated funds and resources and went far ahead in its further economic development. The pre-war (1940) level of industrial production was reached two and a half years after the conclusion of the war, and in the next decade it rose by more than fourfold. [See note.] The figures for the fulfillment of the sixth 5 year plan and the grandiose program for the growth of the USSR in the 7 year plan adopted by the 21st Congress of the Communist Party of the Soviet Union for the years 1959-1965, show clearly with what rapid tempo the Soviet land is approaching Communism.

[[Note:] See Materialy vnescherednogo XXI s"vezda KPSS (Materials of the Extraordinary 21st Congress of the CPSU), Moscow, State Publishing House of Political Literature, 1959, page 169.)

The impressive economic successes of the USSR and of the other socialist countries are the best testimony that political discrimination and financial boycotts conducted by the ruling groups of the US and several other capitalist governments against these countries were notable failures, and will never be able to stop the progress of their economies.

These US groups, which bear the responsibility for this policy, have for a long time comforted themselves and their NATO allies--as is pointed out in a statement of Tass, 12 July 1959--with hopes that starving trade with the USSR and the other socialist countries will bring them to the brink of economic disaster or at least will put the brakes on their continuous advance on the road of economic and technical progress. These hopes were dashed long ago. A striking confirmation of this, along with the remarkable increase in production in the USSR and other socialist countries, is the discovery in the USSR, even before in the US, of the use of hydrogen energy, the launching of scientific earth satellites into cosmic space, and the creation of intercontinental ballistic rockets, which, to date, the US does not have. (See report of Tass, "Words and Deeds of the US State Department," and Pravda, 12 July 1959.)

2. The USSR--a Creditor Nation. Credits of the USSR to Socialist Countries.

After World War II the Soviet Union changed from a debtor country, which had used credits from capitalist countries in order to accelerate the tempo of its economic development, into a creditor country able to provide credits for economic aid to other governments. Up to World War II the USSR rarely granted credits to other governments. The few that were granted to granted to several Eastern countries bordering on the USSR. Thus in 1934 a loan of 8 million American dollars was granted Turkey on favorable terms. Such credits had as their aim the promoting of economic development in these countries and the strengthening of their independence. In addition, short term credits were granted for specific Soviet exportable goods to purchasers, in the form of sale of these goods on deferred payment.

The change in the role of the USSR after the war in regard to international credit relations was before everything else a result of the formation of a world socialist system following the defection from the capitalist system of the Chinese People's Republic and of popular democratic countries in Europe and Asia, which had started on the path of socialist development. The Soviet Union, as the first government in the world to build a socialist commonwealth, true to the debt that it owed to proletarian internationalism, rendered and is rendering disinterested economic and political assistance to countries which have broken away from imperialism. One form of this assistance is furnishing these countries with credits that would contribute to the development of their productive powers and the socialist reconstruction of their economy.

The changed role of the USSR in international credit relations is revealed in affording credits not only to the countries of the socialist camp, tied to the USSR by the common aims of building socialism and communism, but to a number of non-socialist countries, especially countries which have recently freed themselves from colonial and semi-colonial dependence and are experiencing economic difficulties because of the unsatisfactory level of their productive development.

Large offers of credits to these countries became possible thanks to the remarkable progress in USSR production which resulted from the successful fulfillment of the post-war 5 year development plans and the increase in the USSR's national income and reserve funds.



The rapid growth of all branches of the Soviet economy, especially of heavy industry, makes it possible for the Soviet Union to set apart a considerable quantity of the products of socialist manufacture for the purpose of granting credits to the people of underdeveloped countries as well as to capitalist countries with underdeveloped economies, without any damage to the progress of the Soviet economy. The average annual increase in industrial production in the USSR for the seven-year period, 1952-1958, was 90 billion rubles. For the Seven-Year Plan, 1959-1965, the planned increase is 135 billion rubles. [See note]

([Note:] See Materialy vnesocherednogo XXI s"yezda KPSS (Materials of the Extraordinary 21st Congress of the CPSU), Moscow, State Publishing House of Political Literature, page 185.)

In its role as a creditor nation, the Soviet Union invariably follows the principles of equal rights and mutual benefit of the parties concluding the credit agreements, respect for their national sovereignty and non-interference in the internal life of the borrower country, the same principles it always adheres to in its economic relations with all countries.

The USSR is not the ordinary type of creditor nation; it is a creditor nation of a special kind in whose dealings as creditor are reflected relationships of socialist production. In the credit ties of the USSR with socialist countries there are, in addition, a number of new aspects springing from the unity of aims of the USSR and these countries in the struggle to build socialism and communism and from the principles of proletarian internationalism. In his outline of theses on national and colonial questions V. I. Lenin pointed out that proletarian internationalism requires not only the subordination of the interests of the proletarian struggle in one country to the interests of this struggle on a world wide scale, but also the capacity and readiness of a country which had already obtained a victory over the bourgeoisie to face the greatest national sacrifices for the attainment of the final aim of socialism. (V. I. Lenin, Collected Works, Vol. 31, p. 126.)

In addition, the debt of the progressive nations who have thrown off the yoke of imperialism consists in helping the more backward peoples to pass to democracy and socialism. Developing this proposition, I. V. Stalin wrote in 1921, "it is essential that the victorious proletariat of the progressive nations should give effective and prolonged aid to the working masses of the backward nations to assist them in the task of developing

culturally and economically. It is essential that it it should help them rise to a higher stage of development and to overtake the nations which have forged ahead. Without such help it is impossible to bring about that co-existence and fraternal cooperation of the workers of different countries and nationalities into a united world economy, something which is so essential for the final victory of socialism." (I. V. Stalin, Collected Works, Vol. 5, pp. 58-59.)

The principles of proletarian internationalism are today being realized in a system of mutual economic relations between the USSR and the socialist countries. Different in form but alike in their socialist direction these relations of economic cooperation and mutual help between the Soviet Union and the countries of the socialist camp are built on the foundation of these principles.

The principle of equal rights for big and small nations, of fraternal cooperation and mutual help finds its striking expression also in the credit agreements between the USSR and the countries mentioned above. The Soviet Union, in spite of the huge losses inflicted upon it by the war, even in the first post-war years afforded the countries which had broken with capitalism and most needed help with deliveries on credit of food stuffs and raw materials. Later, the USSR furnished credit in the form of deliveries of industrial equipment, so essential for the industrialization of these countries.

Credit agreements between the USSR and other socialist countries are both formally and in essence agreements between the governments of the socialist countries themselves and not between their state foreign trade bureaus, as separate legal bodies. Here it may be stated that grants of commercial credit by state foreign trade bureaus of the different socialist countries to each other in the form of sale of goods with deferred payment, seems inexpedient in the case of intergovernmental credit agreements. Commercial credit between state foreign trade bureaus of the different countries would only disturb the systematic execution of exchange of goods between the respective countries.

Credits granted by the USSR to socialist countries are of two different types: in the form of financial loans and in the form of credits for merchandise. Financial credits are those granted in gold or easily converted foreign currency. To distinguish them from credits for merchandise they can be called currency credits. Credits in the form of goods are those supplied directly in

the form of deliveries of definite merchandise, or credits marked for payment of goods delivered by the USSR, and also of technical aid lent by the USSR to the borrower countries.

The object of currency credits has been and still is to help the different socialist countries overcome their currency difficulties brought about by the policies of the capitalist countries, and also to provide socialist countries with international purchasing means to obtain essential imports from capitalist countries, when such imports cannot be paid for by their own exports.

During the first years after the conclusion of World War II short-term and moderate-term loans prevailed for goods, among which deliveries on credit of food-stuffs played an important part; these permitted the different popular democratic countries (Bulgaria, Hungary, Czechoslovakia and Poland) to quickly liquidate the consequences of crop failures. Credits of this type (grain loans) were also granted during the following years.

During 1947-1951, when the countries of popular democracy passed directly to building socialist commonwealths, the moderate and long term credits for investment were of greater importance. These credits were granted for the payment of deliveries to the socialist countries by the Soviet Union of industrial equipment and materials, and rendering necessary technical aid. During 1947-1952, credits of this type were received by Bulgaria, Albania, Czechoslovakia, Rumania, Hungary, Poland, the Chinese People's Republic and the Korean People's Democratic Republic. Of these the largest credits were to China and Poland.

In 1947, Poland was granted a currency credit in the form of a loan in gold for 27.9 million American dollars. In 1948, long-term credits totaled 450 million American dollars (1800 million rubles) for the payment of industrial equipment which the USSR agreed to deliver to this country in the period 1948-1956. In 1950, Poland was granted a supplementary loan of 400 million rubles to pay for deliveries of industrial equipment during the period 1953-1958. On account of these loans Poland received from the USSR industrial equipment for the V.I. Lenin metallurgical plant, and planned and built with the aid of Soviet engineers, such enterprises as the B. Peruta metallurgical plant in Chénstokhov, and factories like Kostyushko, "Batory," "Pekuy," etc.

In 1948, Czechoslovakia was granted a currency credit in gold and foreign currency for 132.5 million

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rubles due for repayment during 1954-1963. The Chinese People's Republic was granted a loan in 1950 for the sum of 300 million American dollars (1200 million rubles at the present exchange value of the ruble) for payment of deliveries in China of equipment and materials for electric plants, metallurgic and machine factories, coal mines, rail and automobile transport and other branches of their national economy. This loan was to be paid in 10 years--from the end of 1954 to the end of 1963. Taking into account the destruction in China after the protracted operations on its territory, the interest on the loan was set at 1% per annum, an exceptionally low rate. The 1950 loan of 300 million American dollars, is the largest economic loan ever received by China from a foreign government.

During recent years the USSR's cooperation with the socialist countries continued to widen. In accordance with the directives of the 20th Congress of the Communist Party of the Soviet Union with reference to the development and strengthening of economic ties with these countries, the reciprocal exchange of goods between the USSR and these countries is increasing. In addition, loans granted by the USSR to these socialist countries have also increased. Of these loans it is possible to point out the following:

On the basis of an agreement concluded 12 October 1954 in Peking, the USSR granted the Chinese People's Republic a new long-term credit of 520 million rubles to pay for increased purchases by China in the USSR of industrial equipment and other goods. According to a statement signed at the same time the USSR agreed to lend aid to the Chinese People's Republic in building an additional 15 industrial enterprises and to increase the volume of deliveries of equipment for 141 enterprises provided for in an agreement signed earlier, the total cost of the additional deliveries being more than 400 million rubles. The USSR is giving aid to China in building, assembling and setting in motion 211 industrial enterprises. By the end of 1957, of 166 large scale units equipped with the aid of the Soviet Union, 68 units had been wholly or partly put in operation. Part of the Soviet deliveries of industrial equipment, including whole sets of equipment, and the participation of the USSR in the restoration and reconstruction of the giant ferrous metal industry of China--the Anshan Iron and Steel Company Works and a number of other enterprises still under construction--were all paid for from the loan

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granted China by the USSR.

At the request of the government of Czechoslovakia a credit was granted it in gold for 54 million rubles at 2% per annum. This loan is subject to repayment in a period of 3 years beginning in 1958 in equal annual payments. The liquidation of the loan and the payment of interest is covered by deliveries of goods from Czechoslovakia.

At the request of the government of the Polish People's Republic to extend economic aid to Poland, on 18 September 1956 a protocol was signed on this matter in Moscow. In it provision was made for a credit by the USSR to Poland in 1956 for 100 million rubles in gold and deliveries of goods essential to the Polish national economy (copper, rubber and fats). The loan was to be liquidated by deliveries of Polish goods during 1957-1960 in equal annual parts. The interest on this loan was 2% per annum. At the same time the USSR agreed to a postponement of 4 to 5 years of payments by Poland on credits extended earlier in the form of equipment for building industrial plants.

During the time of the talks that went on in Moscow from 15-18 November 1956 between the official Party delegations of the USSR and the Polish People's Republic, several financial accounts were adjusted on both sides for the preceding years. In the interest of both parties the two sides agreed to consider as liquidated as of 1 November 1956 the indebtedness of Poland resulting from the loans granted by the USSR, in full payment of the charges for coal delivered from Poland to the USSR 1946-1953 as per the agreement of 16 August 1945. Agreement was also reached on adjustment of financial accounts for railroad transportation, currency payments, etc.

At the same time the USSR granted Poland at 2% credit in the form of delivery in 1957 of 1400 tons of grain on deferred payment. Payment of this loan will be in equal annual parts through deliveries of Polish exports. In addition, the USSR agreed to grant Poland a long term credit of 700 million rubles for payment of goods delivered by the USSR to Poland according to a protocol mutually agreed upon. It was provided that the loan should be used during 1958-1960. Liquidation of the loan will be through delivery of Polish goods in 1961-1965 in equal annual parts. The interest is at 2% per annum.

The People's Republic of Bulgaria was granted two long term loans on the basis of an agreement of 3 Feb-

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February 1956. The first loan for 300 million rubles to be used in 1956-1959 was marked for supply by the USSR to Bulgaria of tractors, combines, selectors, excavators and other agricultural machinery as well as pedigreed cattle. The second loan for 70 million rubles was granted for payment of equipment, work on projects and other aspects of technical help in building a nitro-fertilizer plant and a huge phosphate plant. Both loans were on a 10 year term at 2%. In the beginning of 1957 Bulgaria was granted 170,000 tons of wheat in the form of a loan. This was to be reimbursed by Bulgaria with supplies of wheat to the USSR in 1957-1959 in approximately equal annual deliveries with interest of 2% per annum also subject to payment in kind.

At the time of the talks held in Moscow 15-21 February 1957 between the Soviet Union and Bulgaria, Bulgaria was granted another long term loan of 200 million rubles for the development of various branches of production including the construction of a supplementary nitro-fertilizer plant and a coal-dressing mill attached to it, a lead-zinc factory, and a chemical coke plant with a coal-dressing mill. Funds were also provided for the expansion of the nitro-fertilizer plant in Dimitrograd and the completion of work on salt deposit projects in Provadka. The remainder of the loan was earmarked to pay for Soviet supplies of necessary equipment, help in designing factories and other services provided by the USSR.

As a result of the successful conclusion of further negotiations an agreement was signed 26-27 December 1958 for Soviet economic and technical aid to the People's Republic of Bulgaria in constructing an oil-refining plant with provision for the manufacturing of chemical products from the exhaust gases. To meet payments for work on the projects by Soviet units and for supplies of equipment and materials from the USSR the government of the Bulgarian People's Republic received from the USSR a loan of 130 million rubles at 2% for liquidation in 10 years by supplying Bulgarian goods to the USSR.

During the Soviet-Rumanian negotiations in December 1956, the question of economic cooperation between the two countries was examined in all its aspects. In connection with the failure of grain crops in Rumania in 1956 the Soviet government agreed to comply with the request of Rumania to supply Rumania during the first half of 1957 with 400,000 tons of wheat and also 150,000 tons of forage grain with payments in keeping with

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the trade agreement. It was also agreed that in order to build industrial chemical plants (one nitro-fertilizer, one synthetic rubber and one chloride caustic soda plant) Soviet organizations should execute the plans for them and supply the equipment drawing on a credit of 270 million rubles at 2%. The loan was to be repaid within ten years from the moment the plants were set in operation, by means of supplies to the USSR by Rumania of the products of these plants, something which would correspond to the economic interests of both countries.

In addition, by mutual agreement, the payments on earlier credits granted to Rumania by the USSR, which were due 1957-1959, were postponed, as well as all questions relating to mutual financial accounts.

With the aim of assisting the further development and strengthening of the economy of Hungary, the USSR agreed in 1956 to grant Hungary, for 1957, a loan of 100 million rubles. Sixty million of these rubles were provided in the form of supplies of goods from the USSR, goods which the Hungarian national economy especially needed (coke, lead, cotton, synthetic rubber, etc.), and 40 million rubles in free currency. This loan was at 2% per annum and was subject to liquidation by supplies of Hungarian goods to the USSR during 1960-1965 in equal annual allotments.

In 1957, at the time of the Soviet-Hungarian negotiations in Moscow which took place after the liquidation of the counter-revolutionary revolt in Hungary, which had been organized with the participation of foreign imperialists, the Soviet Union rendered broad and many-sided economic aid to Hungary. In order to assist the normalization and further development of the economy of Hungary, to enable it to not only satisfy the growing internal requirements of the country but also to guarantee the balancing of payments for the foreign exchange of goods and to raise the standard of living of the population, the USSR granted Hungary a long-term loan to be used in 1957 of 750 million rubles, which included 200 million rubles in free currency. The interest rate was set at 2% per annum. The liquidation of the loan begins in 1961 and will continue for a period of 10 years through supplies of goods usually exportable by Hungary. In addition, on account of credits previously granted, Hungary received in 1957 goods for 85 million rubles and free currency for 40 million rubles. Thus, in 1957, Hungary received 875 million rubles from the USSR. In addition, the USSR granted Hungary a postponement, for a ]



protracted term, of the liquidation of its obligations on a sum greater than 150 million rubles in connection with a credit that had been granted earlier. It also exempted Hungary from repaying its indebtedness, a sum of more than one billion forints, for former German property that had been turned over to Hungary, and for the Soviet share of its participation in the combined Soviet-Hungarian communities.

The German Democratic Republic received from the USSR in 1953 a loan of 485 million rubles, which included 135 million rubles in free currency. The rate of interest on the loan was 2% per annum. The liquidation of the loan began in 1955 and continued for two years. By the agreement of 20 February 1957 the German Democratic Republic was granted a new loan in free foreign currency for 340 million rubles, for purchases in capitalist countries of goods essential to the national economy of the German Democratic Republic.

At the time of the negotiations which took place in Moscow in February 1958 with the government delegation of the GDR the question of extending aid to the GDR for the development of its chemical industry, and cooperation in the field of chemical industry between the USSR and the GDR, was examined. The USSR, desiring to assist a further rise in the economy of the GDR, decided to give it economic help in rebuilding its chemical industry by supplying essential materials for this purpose. To pay for these supplies the USSR granted to the government of the GDR a long term credit of 110 million rubles at 2% per annum, subject to liquidation beginning in 1961 in equal annual allotments for a period of 5 years. The liquidation of the loan will be carried out by means of deliveries to the Soviet Union of the products of the chemical industry of the GDR. Thanks to this loan the increase in the productive capacity of the chemical industry of the GDR will make it possible to satisfy more fully not only its own requirements of chemical products, but will also increase the supply of these products to the USSR.

At the time of the Soviet-Albanian negotiations in Moscow in April 1957, the USSR complied with the request of the government of Albania to supply her with money on account of the merchandise loan, for the purpose of making it possible to fulfill the measures that were being taken to abolish food-rationing in Albania. The credit was furnished for 31 million rubles, on favorable terms.

In November 1957 the USSR, meeting more than half



way the request of Albania, and also guided by the principles of proletarian internationalism and eagerness to assist the further rise in the economy of Albania, granted Albania a new long term credit of 160 million rubles. As a result of this loan the USSR renders Albania technical help in the development of its agriculture and industry, and in particular, in developing new lands.

During the two years that have passed since the time of the Soviet-Albanian negotiations in 1957, the Soviet Union has granted Albania a number of long term loans totaling 526 million rubles. As a result of an agreement of 3 July 1959, the Soviet Union granted to the People's Republic of Albania on favorable terms a new long term loan of 300 million rubles. This loan was earmarked for the payment of Soviet supplies of industrial equipment and technical aid rendered by Soviet agencies during the course of constructing in Albania chemical, building and light industrial plants as well as units for the food industry and other miscellaneous plants, power stations and aid in carrying out geological surveys and the training of national personnel for work on the enterprises which will be set up in cooperation with the Soviet Union.

The USSR also renders broad economic help to the Mongolian People's Republic through the granting of credits. During only the last 10 years (up to 1957) the Soviet Union, desiring to render assistance, promote closer relations and raise the general cultural level of the Mongolian People's Republic, granted the latter on favorable terms long term credits for more than 900 million rubles to develop industry, agriculture and transport.

In 1956, the USSR granted to the MPR on favorable terms a long term loan of 35 million rubles for payments of building services and Soviet supplies of equipment, building machinery and other materials for a number of units being built by the MPR with the aid of the USSR. As a result of the Soviet-Mongolian negotiations in Moscow in 1957 the USSR granted a new long term loan to the MPR on favorable terms for the sum of 200 million rubles. The loan will be used for payments of supplies from the USSR in 1958-1960 of equipment, machinery and materials, and also for technical assistance in connection with the construction in the MPR with the aid of the USSR of two woodworking factories, brickworks, a wireless radio station and the restoration of two wool-washing factories. On 10 February 1959 an agreement was concluded between

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the USSR and the DPR for the Soviet Union to give aid to the DPR in opening up virgin lands and in conducting geological surveys. For payments for agricultural machinery furnished by the USSR to the DPR and also for expenses for the commission of Soviet specialists, the USSR granted the DPR a loan on favorable terms.

The Democratic Republic of Vietnam was granted, in addition to the aid it received gratis to the extent of 400 million rubles (see below), a long term loan for 30 million rubles for purchases in the USSR of goods in wide demand. The interest rate was 2% per annum, and repayment of the loan will take place in 1960-1964 through supplies of Vietnamese goods to the USSR. On 7 March 1959 an agreement was signed between the USSR and the DRV "On the extension of economic and technical aid by the Soviet Union to the DRV to build industrial plants and to help realize other projects" and an agreement on "Scientific-Technical Cooperation." For the payment of the technical aid extended by Soviet agencies to DRV, the USSR granted the DRV a credit of 100 million rubles on favorable terms.

As per an agreement of 2 February 1956, Yugoslavia received on favorable terms a long term currency loan for 50 million American dollars, with the right to use it up outright in full or in different portions during 1956-1958. As regards the credits provided for in the agreements between the USSR and Yugoslavia of 12 January and 1 August 1956, on the financial arrangements for building an aluminum factory (jointly with the German Democratic Republic), and also on payment for equipment for fertilizer producing plants, as well as engineering and other services by Soviet agencies, the USSR proposed to Yugoslavia that it defer the utilization of these credits for approximately 6 years. The reason for this was the decision of the Soviet government to accelerate the development of the chemical industry of the USSR, which called for vast new investments. (See Pravda, 1 July 1958.)

A form of economic cooperation and mutual assistance, similar to credits, were investments by the USSR in combined communities organized in a number of countries of popular democracy. Some of these combined groups (for example, in Rumania and Hungary) arose because of the utilization in the respective countries of German assets which had become the property of the USSR according to a decision of the Berlin conference of 1945 by the three great powers. The Soviet Union supplied, on account of its own payments, finished equipment and necessary materials to these communities. As a result of

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[ these capital investments and other measures, the capacity of these communities grew and the technical level of their enterprises improved. After these joint communities successfully fulfilled the tasks that faced them, tasks of assistance in the industrial development of the different countries of popular democracy and the training of local personnel, in 1954 the USSR transferred to the respective socialist countries the Soviet share of its participation in these communities, on favorable terms, with payments deferred for several years.

In addition, the USSR during recent years also has given assistance, absolutely free, to the individual socialist countries, as well as other advantages. Thus, in 1953, the USSR apportioned to the Korean National Democratic Republic, which had suffered in the war, 1 billion rubles to reestablish its national economy. On account of this sum, the USSR delivered to Korea, during a period of 2 years, varied industrial and other equipment, materials and different consumer goods. The KNDR, in addition to a gift of 1 billion rubles, was also granted postponement of payments due on Soviet credits received and used earlier.

In the Summer of 1955 the USSR allotted to the People's Republic of Vietnam, which had suffered heavy material losses as a result of the prolonged war, 400 million rubles to improve the standard of living of its inhabitants, and to restore the economy of the republic, including the restoration and construction of 25 industrial and communal enterprises.

In 1956, when the Hungarian Revolutionary Worker-Peasant government turned to the socialist countries on 5 November 1956 for assistance to Hungary to heal the wounds inflicted on her during the time of the counter-revolutionary revolt, the USSR extended fraternal assistance, absolutely free, to the workers of Hungary, sending, with no delay, considerable quantities of foodstuffs and building materials. In addition, the Soviet government gave instructions to dispatch to Hungary ahead of time fabrics, raw materials, fuel and other goods which were, according to the trade agreements, not due for delivery until much later.

Following talks held in Moscow 11-17 April 1957 between the delegations of the USSR and Albania, the USSR, taking into consideration that in spite of its economic successes Albania had not yet overcome its heavy heritage of backwardness, and guided by principles of fraternal friendship, presented to the Albanian people,]

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as a gift, the enterprises that had been built on the basis of Soviet credits. In this connection, Albania was exempted by the liquidation of its indebtedness due on credits, to the sum of 348.5 million rubles, and also from payment of interest on these credits, amounting to 24.6 million rubles. In the joint announcement of the government-Party delegations of the Soviet Union and the People's Republic of Albania of 30 May 1959, it was stated that the USSR as a gift to the Albanian people will build in Tirana a Palace of Culture and will give assistance in the construction of two wireless radio stations.

During the last 10 years (up to 1957) the USSR transferred, without charge, to the Mongolian People's Republic Soviet property worth more than 100 million rubles. In 1957, the enterprises of the "Mongol-Oil" Trust were transferred, also without charge, to the ownership of the MPR, and also the buildings and all equipment of the airports in Ulan-Bator and Sayn-Shande, together with a certain quantity of planes.

The credits of the Soviet Union to socialist countries played a most important role in their economic development. Together with other forms of economic collaboration, they made possible the restoration of the national economies after the war, and an accelerated tempo of socialist reconstruction in these countries. In view of the economic and financial boycotts conducted by the United States and a number of other imperialist governments directed against the national democratic countries, the latter could not have created and re-equipped their industry within so short a time without the help of the USSR. This was especially true for heavy industry and the building of machines because the national democratic countries could not have procured the necessary equipment and materials from capitalist countries. On the basis of Soviet credits, whole branches of industry, factories on the largest scale, and whole groups of industries were created in a number of these countries. In this, Soviet supplies of equipment and whole sets of enterprises played the most important role; a number of these enterprises came into being on the basis of credits granted to these countries. The long term credits of the USSR to countries of the socialist camp for industrialization purposes also help to solve the problem of equalization of levels in the economic development of these countries, pulling up the less developed socialist countries to the level of the more advanced.

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The Soviet credits, of course, made up only a portion of the expenditures indicated. In the restoration and socialist reconstruction of the economies of the national democratic countries, their own resources and reserves played the basic role. Still, without Soviet help, especially in the form of deliveries of equipment and materials, the rapid tempo of industrial development which has allowed the national democratic countries to exceed pre-war levels, would have been unthinkable.

3. Credits by the USSR to Economically Underdeveloped Countries and Other Capitalist Countries.

During recent years (1954-1959) the USSR has emerged as a creditor nation, not only in reference to countries of the socialist camp, but also in reference to a number of capitalist countries. Among the latter group of borrower countries an ever greater importance is claimed by the countries which have recently freed themselves from the colonial or semi-colonial yoke, and are still struggling to strengthen their economic and political independence. In keeping with the policy of Lenin to support the oppressed nations of the East, the people of the Soviet Union and also of other socialist countries, feel sympathy for the aspirations of the former colonial and dependent peoples, who have freed themselves from the yoke of imperial governments, to strengthen their economic and political position, by the building of their own industry and the development of their backward agriculture, which suffer from survivals of feudalism.

After the economic might of the USSR grew to an extraordinary degree as a result of the successful fulfillment of the post-war 5-year plans for developing the national economy, the Soviet Union began to extend to former colonial and dependent countries more and more significant disinterested economic help. One of the important forms of this aid are, of course, credits granted by the USSR to these countries for purposes of industrialization and to promote a general rise in their economies.

In extending credits and other forms of aid to economically underdeveloped countries, the USSR is not engaged in charity. The Soviet Union helps underdeveloped countries on a business basis. The Seven-Year Plan of development in the USSR adopted by the 21st Congress of the Communist Party of the Soviet Union, opens

up new possibilities for economic collaboration with the underdeveloped countries in industrial relationships.

Besides extending direct credits, the USSR also takes part in the fund to give assistance to underdeveloped countries, created by the United Nations. Along with this the USSR is a supporter of the idea of creating an international fund to finance economic development in the underdeveloped countries, and has announced its readiness to take part in this fund.

To the non-socialist countries the USSR in recent years has extended credits of a dual nature: (1) On the basis of intergovernmental economic and special credit agreements between the Soviet Union and the respective countries, and (2) in the form of credits for goods granted by foreign trade agencies of the USSR to firms and organizations of some of these countries, on conclusion with them of contracts for the supply of industrial equipment, machinery and some other goods.

Credits of the first type have a much greater significance. They represent intergovernmental credits, since both creditor and borrower are the governments themselves. Credits of the second type represent credits of a private character.

Credits of the first type were granted by the USSR in 1954-1959 to Finland, India, Afghanistan, Indonesia, Syria, Egypt, Ceylon, Iceland, Yemen, Argentina, Iraq, Ethiopia, and the Republic of Guinea.

The nature of the credits to Finland are different than the credits granted to the other countries listed above, since Finland is an industrially developed capitalist country. Two credits were extended to Finland, each one for the sum of 40 million rubles on the basis of credit agreements between the USSR and Finland of 6 February 1954 and 24 January 1955. Both credits were currency credits, which could be received in gold, American dollars or some other foreign currency mutually agreed upon. The credits could be utilized by Finland outright at one time or in parts during a period of 3 years. The term of liquidation of these loans was 10 years after the utilization of the loans. The rate of interest was 2.5% per annum.

Both loans were subject to liquidation in the same currency values (gold or foreign currency) in which they were received. Granting the request of the government of Finland, the government of the USSR, in a protocol signed 13 March 1959 with the government of Finland, assented to the payment of the currency loan of

6 February 1954 for the amount of 40 million rubles by supplies to the Soviet Union, in 1959, of Finnish goods instead of in currency.

Credits to the other countries mentioned above are long-term credits with stipulations, earmarking them to pay for supplies by the Soviet Union to the respective countries of industrial equipment, machinery and materials, and the rendering of technical aid.

India was granted two long-term loans by the Soviet Union. The first loan was granted on the basis of an agreement between the USSR and the Republic of India on 2 February 1955, for the construction of a complete metallurgical plant at Bhilai in India, with a rated capacity of 1 million tons of steel annually. The loan was earmarked for the payment of Soviet supplies of equipment and technical aid in the construction of this plant. The total sum of the loan is a little more than 500 million rubles. The liquidation of the loan will be by way of Indian rupees in equal annual parts during a period of 12 years. The rate of interest on the credit is 2.5% per annum. It is necessary to emphasize that this agreement provides for the maximum use of Indian industry for the manufacture of parts of the equipment and materials needed for the construction of the metallurgical plant.

At the end of 1957, India was granted by the Soviet Union a new long term loan of 500 million rubles (almost 600 million Indian rupees). This credit will be used by India to pay for Soviet supplies of equipment, technical aid and other expenditures connected with the building in India of factories for the manufacture of heavy machinery and of optical glass, thermo-electric stations with a capacity for 250,000 kilowatts, and enterprises for the extraction and processing of coal. The conditions of this loan with relation to the rate of interest and term of liquidation are the same as in the first loan.

As a result of talks with the economic delegation of India on 29 May 1959, an agreement was signed providing for the collaboration of the USSR in the construction in India of government enterprises for the manufacture of drugs, medical preparations and surgical instruments. The supply of equipment and extension of other types of technical aid for these enterprises will be on the basis of a new credit granted to India by the USSR.

At a discussion, in July 1959, between the repre-

representatives of the USSR and India, on extending to the latter foreign economic aid, the Soviet delegation made a preliminary proposal about extending to India a new long term loan for 1500 million rubles for utilization in realizing the third 5 year plan of India. This rather large loan of 1500 million rubles was granted by the Soviet Union to India on the basis of the agreement of 12 September 1959. The conditions of this loan are similar to the conditions of the loans granted to India earlier by the USSR. The utilization of the loan will take place over a period of 5 years. On the basis of this loan Soviet agencies guarantee technical aid in the construction of several industrial, agricultural and other enterprises provided for in the third 5 year plan of India.

The Soviet Union has granted Afghanistan two long term loans. The first was granted in 1954 to pay for equipment supplied by the USSR, as well as for materials and other expenditures by Soviet agencies in connection with the construction of two grain elevators, a mill and a bread factory. The amount of the credit, about 3.5 million American dollars, was subject to future determination. The term for the use of the credit was 3 years with an interest rate of 3% per annum. The loan was subject to liquidation during a period of 5 years in equal annual payments. The liquidation of the loan was to take place by supplies of wool and cotton from Afghanistan.

A second long term loan of 100 million American dollars was granted by the Soviet Union to Afghanistan on the basis of an agreement concerning collaboration between the two countries, signed 20 January 1956. In this agreement there is provision that both governments, in keeping with the relationships of friendship existing from olden times between the two countries, and for purposes of further enlarging and developing their mutually profitable economic ties, should collaborate in the economic development of Afghanistan and in particular in the development of agriculture, and the construction of irrigation enterprises, power and transport.

On the basis of a loan of 100 million American dollars the USSR guarantees to Afghanistan delivery of equipment and materials, and also extension of other services connected with technical aid in the construction of several projects mentioned above. The term of liquidation of the loan is 30 years. The rate of interest



is 2% per annum. The liquidation of the loan begins 8 years after the utilization of the appropriate part of the loan, and will take place in equal annual installments during a period of 22 years by supplies to the USSR of Afghan exports.

On the basis of a general agreement concerning economic and technical collaboration between the USSR and the Republic of Indonesia of 15 September 1956, the Soviet Union granted to Indonesia a loan of 100 million American dollars at 2.5% per annum. This loan could be utilized by Indonesia during a period of 8 years to pay for Soviet supplies of industrial equipment and materials and also for services carried out by Soviet agencies. The liquidation of the loan was to take place during a period of 12 years in equal annual payments commencing 3 years after the date of the utilization of the corresponding part of the loan. Repayment of the capital loan plus interest could take place by way of supplies to the Soviet Union of Indonesian goods, by transfer of English pounds sterling, or by freely convertible currency, as per agreement between the central banks of the USSR and Indonesia. At the beginning of 1959 a protocol in connection with this agreement was signed in Jakarta. The Soviet and Indonesian agencies will collaborate in building two metallurgical plants--the first in the history of the country--factories for the production of superphosphates, and roads.

On the basis of an agreement concluded 28 October 1957 with reference to economic and technical collaboration between the USSR and the Republic of Syria (now the Syrian part of the United Arab Republic), the Soviet Union granted to Syria a needed loan for the payment of the execution by Soviet agencies of prospecting and exploring services in the field of railroad building, dams and hydro-electric stations, irrigation systems, bringing water to pasture lands for cattle, the construction and restoration of railroad bridges, factories for producing nitro-fertilizer, and other projects. On the basis of this loan payment will also be made for supplies from the USSR of industrial equipment and other services rendered. The rate of interest on the loan is 2.5% per annum with a 12 year term of liquidation.

In 1958, the USSR granted two large long term credits to Egypt (now the Egyptian part of the United Arab Republic). The first of these credits was granted on the basis of an agreement with reference to economic

and technical collaboration between the USSR and Egypt of 29 January 1958. This collaboration will be directed toward realizing plans for developing the national economy of Egypt in the fields of geological operations, mining, prospecting and processing of oil, and the following industries: metallurgical, machine building, electrical, chemical, textile, food and drug.

To pay for supplies of equipment and materials, and also for technical aid in planning and building the industrial enterprises, the USSR granted Egypt a long term credit of 700 million rubles at 2.5% per annum. The loan can be used over a period of 4 years. The liquidation of the loan is for a period of 12 years, in equal annual installments. A special aspect of this credit agreement is the provision according to which Soviet economic agencies can bring in, for the fulfillment of the operations involved in the projects mentioned above, and also for supplies of equipment, machinery and materials, economic agencies of other countries of popular democracy, but only with their consent.

In October 1958, the USSR, having in view the strengthening of friendly relations and fruitful collaboration with the United Arab Republic, decided at the request of the government of the UAR, to extend aid to Egypt for the first installment of the Aswan dam. The building of this dam will permit the irrigation of vast areas of now barren lands, will help solve the problem of providing electric power for the country, will create the prerequisites for raising the standard of living of the people, and will make possible progress toward the national independence of the UAR. To pay for the Soviet supplies of equipment, machinery and materials necessary for the construction of the dam, and also for services by Soviet specialists, the USSR granted a new credit to the UAR of 400 million rubles. The liquidation of both credits is to be by way of supplies to the Soviet Union of Egyptian goods, English pounds sterling, or free foreign currency agreed upon by both sides.

On the basis of an agreement of 25 February 1958 between the USSR and Ceylon with reference to economic and technical collaboration, the Soviet Union granted to Ceylon a long term credit amounting to 120 million rubles at 2.5% per annum with liquidation over a period of 12 years. The stipulated purpose of the loan was to pay for planning services provided by Soviet agencies, as well as for Soviet supplies of equipment, machinery, materials and other types of technical aid. The liquid-

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ation of the credit will take place by means of supplies of Ceylonese goods, pounds sterling or other convertible currency, as per agreement by both sides.

In 1958 a loan was granted by the Soviet Union to Iceland. As per the credit agreement of 18 August 1958, the loan of 50 million Icelandic kronen is earmarked for financing the purchases by Icelandic firms of fishing boats from foreign trade firms of the German Democratic Republic. The rate of interest on the credit is 2.5% per annum. The loan is subject to liquidation in 12 years by supplies of goods of Iceland to the USSR. These supplies will be provided according to an agreement about turnover of goods and payments concluded between the two sides.

As a result of talks which went on in Moscow with the trade delegation of Argentina about supplies from the USSR of equipment for the development of the oil industry of Argentina, on 27 October 1958 there was signed an appropriate agreement. To help the government of the Republic of Argentina to finance purchases in the USSR of different types of oil equipment, the USSR granted to Argentina a loan amounting to 100 million American dollars (400 million rubles) at 2.5% per annum. The term of the credit is 3 years. Liquidation of the loan will take place by supplies of Argentine goods during a period of 7 years in equal annual installments, beginning 3 years after the delivery of the equipment.

In March 1959 an agreement was concluded with reference to economic and technical collaboration between the Soviet Union and the Republic of Iraq. In the agreement provision is made that the Soviet government will collaborate with the government of Iraq in realizing plans for the development of the national economy of Iraq in the fields of industry, agriculture and transport. For this the USSR will extend to Iraq technical help in the building of a number of heavy industries including machine building, chemicals, food and lumber.

Desiring to assist the economic development of Iraq and complying with the request of Iraq, the USSR granted to the Republic of Iraq a long term credit of 550 million rubles for the realization of the provisions of the agreement which had been concluded. The interest rate is 2.5% per annum. Liquidation of the used part of the credit for each one of the projects cited above will take place in 20 equal annual installments, beginning within one year after the completion of the deliveries from the USSR of the complete units of equipment.]

provided for in the corresponding contracts.

Friendly economic collaboration between the Soviet Union and the Republic of Iraq, the Iraq delegation stated, will help solve a number of economic problems of Iraq, will overcome more rapidly the burdensome heritage of the epoch of colonialism, will strengthen the economic independence of the country and will raise the material and cultural level of the Iraqi people. The Soviet delegation gave assurances that this economic and technical collaboration will be realized without any kind of political or other provisions which would affect the sovereignty and national dignity of the Republic of Iraq, and that the Soviet, for its part, will be guided in this collaboration by principles of equality, mutual economic benefit and non-interference in internal matters.

As a result of talks between the Soviet Union and Ethiopia about widening trade and economic collaboration, the USSR agreed to grant to Ethiopia a long term credit amounting to 400 million rubles at a low rate of interest. The stipulated purpose of the loan was to assist the development of industry and agriculture in that country.

At the time of the sojourn of the delegation of the government of Guinea in the USSR in August 1959 the Soviet Government agreed to grant to the Republic of Guinea a long term credit amounting to 140 million rubles at 2.5% per annum, with the term of liquidation being 12 years. The loan has as its aim economic and technical assistance to Guinea in building a number of industrial enterprises, development of agriculture and the building of roads.

Besides the long term credits granted by the USSR to the governments of economically underdeveloped capitalist countries, private foreign trade firms and organizations of these countries have the opportunity of making use of commercial credit with Soviet foreign trade agencies. In selling to these firms and organizations industrial equipment, machinery and some other goods not supplied by the USSR under the conditions of the credit agreements, the foreign trade agencies of the USSR often agree to defer payments for ordered goods for a period of 3 to 5 years, depending on the particular circumstances.

The USSR extends to underdeveloped countries not only loans but in special cases even absolutely free aid. Thus on the basis of an agreement with the government of Nepal of 14 April 1959, economic and technical aid was donated by the USSR to the latter for the construction

of hydro-electric stations, a sugar factory, a cigarette factory with Diesel electric installations, and aid for conducting research services for the construction of roads. The sum total of this assistance would be in terms of money about 30 million rubles. On the basis of another agreement, the USSR agreed to grant assistance to Nepal in building a hospital, free of any charges.

Economic help in the form of the granting of credits to underdeveloped countries is rendered also by other socialist countries, especially by the Chinese People's Republic, Czechoslovakia, and the German Democratic Republic.

The conditions of long term loans granted by the USSR to the governments of several capitalist countries backward in their economic development differ in an important way from the credits granted to them by imperialist governments, their banking institutions and the International Bank of Reconstruction and Development.

The loans of the Soviet Union to these countries are based on the very principles of equal rights, mutual benefits, respect for the sovereignty of the borrower-countries and non-interference in their domestic life, to which the USSR always adheres in its international credit relations. In contrast with the majority of loans granted by imperialist governments, the loans of the USSR to underdeveloped capitalist countries do not contain and cannot contain any kind of open or hidden provisions imposing upon the borrowers political and military obligations or demanding from them economic concessions, leading in the end to the enslavement of the debtor countries. The peoples of a number of countries of the East had the opportunity to convince themselves through their own experience that aid granted to them by imperialist governments in the form of grants and loans leads to the seizure of their most important riches by foreign monopolies, to their involvement in aggressive military blocs, and to the loss of their national independence.

In granting loans to underdeveloped countries the imperialist governments are not interested in the industrial development of these countries, in their building their own heavy industry and machinery. It is well known that the monopolies of the United States and England, which supply industrial equipment, constantly use pressure on India to disturb the development of her national industry. When the question came up of constructing the Aswan dam in the Egyptian part of the United

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Arab Republic, which was to make possible the development of an independent economy in that country, the ruling circles of the US put forth proposals and conditions which would have wiped out completely the independence of the United Arab Republic. In the light of these facts the granting by the Soviet Union of long term loans to the UAR for financing part of the expenditures for the construction of the first installment of the Aswan dam proved to be, according to a report in the press of the UAR, a great contribution in the struggle of the UAR against the economic pressure of the imperialists.

At a time when a large part of the loans of imperialist governments to underdeveloped countries is granted for military purposes, the extraction of raw materials and for immediate needs, the USSR extends to these countries loans for the purpose of reconstructing and industrializing their countries. The investment loans of the USSR to underdeveloped countries put an end to the monopoly of imperialist governments and their banks in the supplying to these countries of credits for industrial equipment and machinery.

The disinterested character of friendly economic assistance by the USSR in the form of loans to socialist and non-socialist countries, and the absence in the case of the USSR of a desire to receive commercial profit from its credit operations, are testified to by the favorable conditions for the liquidation of the loans and the extremely low rates of interest. These rates of interest are markedly lower than the official discount rates of the central banks of the chief capitalist countries in 1957-1958. As is well known, the rates of interest of private commercial banks and, even more, the interest on long term loans and credits, is higher than the official discount rate. The rates of interest on long term loans by the USSR to socialist countries are 2% per annum (to China--1% per annum). At the very same time Yugoslavia pays on the loans that she receives from capitalist countries, from 3.5% per annum (to the International Bank of Reconstruction and Development) up to 8.5% (to the Federated Republic of Germany). Poland will pay 4.5% per annum on the 1957 loan it received from the United States. For loans and credits by the USSR to underdeveloped countries rates of 2.5% prevail. This same rate of interest was also established for both currency loans granted by the USSR to Finland in 1954 and 1955. After the war not a single country and not a single international financial institution granted loans to

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Finland at such a low rate of interest. For loans of the International Bank of Reconstruction and Development Finland paid not less than 4.5%.

The International Bank of Reconstruction and Development and the International Finance Corporation charge 5 to 6% per annum on long term credits to underdeveloped countries. Thus, for example, the Sudan was granted, in July 1958, by these banks a loan for the development of transport, for 39 million American dollars, at an interest of 5.375% per annum. In September 1958 a loan to India to pay for supplies of rolling stock and equipment carried an interest of 5.7% per annum. The Federated Republic of Germany granted a loan to the United Arab Republic in 1958 at 5.5% per annum.

The loans by the USSR to the former colonial and dependent countries makes possible the strengthening of the independence of the economies of these countries by freeing them from dependence on imperialist countries. In addition, they are the most important factor in extending the areas of peace and lessening of strain in international relations.

The Soviet Union does not demand from underdeveloped countries the liquidation of the loans in foreign currency, of which the majority of these countries have a complete lack. In agreeing to receive goods as liquidation of the loans, goods that are manufactured in these countries and can be exported, the USSR not only helps their currency difficulties but makes possible the extension of markets for the sale of their national products.

In a conversation with a French journalist, Comrade Mikoyan pointed out that the volume of Soviet aid to underdeveloped countries and the conditions on which it is offered, "force American and other capitalists to begin to make serious concessions to underdeveloped countries, to increase the allotments of resources to them, and to improve conditions in general. But without the evident fact of economic collaboration of the underdeveloped countries with the Soviet Union, the former unrestrained practice would continue, the practice of exploitation and robbery on the part of capitalist countries which are developed in an industrial sense. This change in the relations of capitalist countries with underdeveloped countries actually proves to be, perhaps an indirect, but certainly a very serious help to them, because of the Soviet Union." ("Talks of Comrade A.I. Mikoyan with French Journalists," Vneshnyaya Torgovlya (Foreign Trade), No 8, 1958, Page 6.)



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The successful development of economic and credit relations between the USSR and the countries mentioned above serves as a graphic confirmation of the possibility and advisability of peaceful coexistence of countries with different social and political systems, and of mutually profitable economic cooperation among them.

4. Basic Features and Provisions of Loans Granted by the USSR to Foreign Governments.

Supply by the Soviet Union of loans and credits [See note] to other countries indicates its influence on the workings of socialist production. The source of these loans and credits is basically that part of the national income of the USSR which makes up the accumulated funds. Another such source can be the national wealth in the form of goods accumulated earlier, and also of currency reserves.

[Note: Loans represent one of a variety of credits. Long term credits are said to be loans if they are furnished and liquidated in the form of currency.]

Loans and credits by the USSR to other countries, from the point of view of socialist production, mean that part of the manufactured surplus products which make up the fund of accumulations, which, instead of being used for the expansion of productive funds, or for the building up of capital for improving the living standards, or for the increase of reserves in the economy, is separated from the economy of the Soviet and enters for the duration of the credit into the economy of the respective borrower countries with the guarantee of equivalent return. On the other hand, the entrance into the USSR of material values from the borrower countries through the liquidation of credits and the payment of interest on them means a corresponding increment to the national income which may be used for enlarging the reserve funds, i. e., for the broadening of the productive means, and for other purposes.

The extension of loans and credits by the USSR to other countries presupposes, in connection with this, the necessity of broadening the plan of production of those products for whose payment these credits are afforded, above the total which is usually produced according to the plan of satisfying only internal requirements, or it presupposes the necessity to spend the reserves accumulated earlier and to replace them later. Similarly, provision must be made in the national



economic plans for the receipts of material gains from other countries, from the liquidation of loans and credits received by them and from the payment of interest upon them.

As is evident from the preceding, the conditions on which the USSR extends loans and credits to other countries, and also the liquidation by them of the loans and credits, have an important economic significance in the process of expanding socialist production. In connection with this it becomes advisable to examine in greater detail the basic features and conditions of loans and credits furnished by the USSR to socialist and non-socialist countries.

I. Types of Credit. Credits by the USSR to other countries can be divided into separate types, depending on the form and term of the credit and the character of the borrower.

A. Forms of Credit. In their form, credits by the USSR to other countries represent either credits in the form of currency, or credits in the form of goods. Credits in the form of currency are called currency credits and are extended to other countries in gold or in freely convertible foreign currency. Under the terms of these credits the borrower receives from the creditor an amount of credits, and he himself spends it on purchases of goods and other purposes in third countries. Here the creditor and the supplier of goods purchased on the basis of the credits are different individuals. In such credits there is no stipulation binding the borrower to spend the credit received in the country of the creditor.

A special aspect of credits in the form of goods in distinction from currency credits is the fact that here the movement of credit coincides with the movement of goods and services charged to the account of the credits. The creditor and the supplier of goods and services is one and the same individual.

Credits in the form of goods furnished by the USSR to other countries may in their turn, be divided into the following sub-forms:

(1) Credits for the payment of industrial equipment supplied by the USSR to these countries, and also of technical aid rendered; these credits represent, as was mentioned above, the basic form of credits to countries of the socialist camp and to economically underdeveloped capitalist countries.

(2) Credits for the payment of supplies delivered by the USSR to the different countries, supplies

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of raw materials, food-stuffs, and other goods.

(3) Credits in their natural form--so-called grain loans, furnished and liquidated in kind.

(4) Credits to be settled by a clearing agency, by permitting indebtedness for clearing above the sum of the technical credit; these can also be credits in the form of goods, because the indebtedness to be cleared represents supplies of goods not repaid by the purchasing country with balancing supplies.

(5) Credits extended by foreign trade agencies of the USSR to firms and enterprises of underdeveloped capitalist countries in the form of supplies of industrial equipment and other goods, with deferred payments.

Although the listed sub-forms of credits in the form of goods represent supplies of goods and services rendered with deferred payments, it would not be correct to identify them fully with commercial credit. In the same way, one should not identify them with credits for goods to private firms, of which the Soviet foreign trade agencies made use in capitalist countries from 1922 to 1934. Only the last sub-form has a definite similarity with commercial credits, namely, the credits to firms and enterprises in underdeveloped capitalist countries.

As is well known, Karl Marx considered as a commercial credit only such credit which functioning capitalists, occupied in the process of production, extend to each other. In the case of credits in the form of goods supplied by the USSR to socialist countries, the creditor and the borrower are not industrial and merchant capitalists, but governments in the role of socialist producers. Similarly, in analogous credits by the USSR to underdeveloped capitalist countries, the credit agreements are concluded not between private firms, but between governments.

The supply by the USSR to other countries of credits for the payment of industrial equipment and technical aid, have a certain similarity with the earmarked financial credits that the USSR used in the past in capitalist countries, e. g., the English credits of 1936 and the Swedish credits of 1940 and 1946. The similarity consists in their stipulated character, their "binding stipulation," through whose force these credits cannot be used for purchases of goods and payments in third countries, but only in the country of the creditor.

The difference consists in the fact that the pre-

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Soviet credits represent credits in the form of goods, whereas the earlier earmarked financial credits of the capitalist countries to the Soviet Union were credits in the form of currency. The merchandise form of the Soviet credits is a result of the fact that both the creditor and the supplier of goods purchased on the basis of the credits is the Soviet Government in the role of a single economic entity. In the financial credits of the capitalist countries the creditor and supplier were different individuals. Credits were extended by the government, but the money from these credits went for the payment of goods supplied by private firms.

E. Duration of the Credits. From the point of view of duration, credits of the USSR to other countries can be divided into long term, moderate term and short term credits.

Long term credits (more than 5 years), as a general rule, may apply to almost all credits extended for the payment of industrial equipment and technical aid rendered (investment credits) both to socialist countries and to underdeveloped capitalist countries, as well as to some currency credits.

In the class of moderate term credits (from 1 year to 5 years) may be included credits for the payment of raw materials, food-stuffs and consumer goods, grain loans, some currency credits, and also commercial credits of foreign trade agencies of the USSR to organizations and firms of underdeveloped capitalist countries for sale to them of industrial equipment, means of transport and other similar goods.

Short term loans (up to 1 year) are commercial credits furnished by foreign trade agencies of the USSR to firms and organizations of capitalist countries for sale to them of raw materials, consumer and other similar goods, as well as credits furnished by the USSR to some countries for adjustment by a clearing agency.

C. Types of Credit Classified By Borrower. From the point of view of the character of the borrower, credits of the USSR may be divided into government credits or intergovernmental credits, and credits of a private character to firms and organizations of capitalist countries. All credits extended by the USSR to countries of the socialist camp are based on credit agreements concluded between governments. Both the creditor and borrower in these credits are governments. The same character belongs to the majority of credits allowed to underdeveloped capitalist countries by the USSR. The ]

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only credits which can be considered to have a private character are those extended by foreign trade agencies of the USSR to organizations and firms of non-socialist countries for the sale of equipment and miscellaneous goods. In this class may also be included credits furnished to government enterprises of underdeveloped capitalist nations.

II. Determination of the Amount of Credit. The amount of the credit is indicated in the majority of credit agreements in the form of a definite sum. In some credits, earmarked for payment by the borrower for industrial equipment and technical aid, the amount of the credit is indicated in the form of a maximum sum, "up to such and such a sum." In some credits of this type, together with an indication of the amount of the credit, there is a stipulation that this sum is subject to further determination.

At the time of the signing of the credit agreement the amount of such credits can be determined only approximately, because the final amount will depend on the cost of the goods and services for the payment of which the credit is extended. This is especially so where the use of the credit continues over a number of years.

The prices of the goods supplied in accordance with the credit agreements are based on the prices of the goods in the world markets. These prices take a definite form in the contracts concluded on the basis of the credit agreements between the suppliers of the creditor country and the customers of the borrower country. Such an agreement on prices usually takes place at the beginning of the year between the respective suppliers. In connection with this, it is on the movement of prices in the world markets of the goods to be supplied and the services to be rendered during the period of the credit that the cost of the goods and services stipulated in the credit agreement will depend. How much industrial equipment and material the borrower country will receive is dependant on the definitely established figure of the credit. In exactly the same way, it is the change in the prices of the goods that will determine the quantity of the respective goods which will be at the disposal of the creditor country when liquidation of the credit and interest payments thereon commence.

In credits earmarked for payment of Soviet supplies of raw materials, food-stuffs and consumer goods, the amount of the credit is usually a specified figure. In grain loan credits the amount of the credit is indi-

ated not in money but in the weight of the product supplied on credit, e. g., so many tons of wheat or fodder.

In currency credits, the amount of the credit is specified in rubles or in foreign currency with an indication of the equivalent gold content, or by a fixed gold weight total alone. For example, the currency credit to Poland in 1947 was in the form of a loan in gold of 27.8 million American dollars (1 ounce of pure gold = \$35). The credit agreements usually specify in what currencies the credit may be used. For example, in the 1954 and 1955 credit agreements, in each of which Finland was provided with a currency credit of 40 million rubles, it was provided that the sum could be received in gold, American dollars or other foreign currency mutually agreed upon.

III. Earmarked Credits. In credits for the payment of supplies of equipment and goods, as well as technical aid, the purpose of the credit is indicated more or less definitely, either in the credit agreement itself, or in the statements attached with the lists of goods to be supplied. When the use of the credit extends over a protracted time further specifications of purpose are included in the yearly statements assented to by both sides.

Earmarking credits as to purpose creates a direct connection between the extension of credit and the supply of definite goods. Stipulating the purpose means acceptance by the creditor country (the USSR) of definite obligations with reference to the supply of goods and the extension of technical aid to the borrower country. From this flows the necessity to make provision in the national economic plans, during the period the borrowers are to use the credit, for additional production of the specified types and classes of industrial equipments, materials, etc., to guarantee the supplies stipulated in the credit agreement. An alternative is to provide the goods from available stocks but for this also provision must be made.

In the case of currency credits, stipulated credits mean acceptance by the borrower country of definite currency values in gold and/or foreign currency, and not in goods. For its part, in order to fulfill currency loans the USSR has to make provision either for additional currency receipts or to use its currency reserves.

IV. Type of Currency of Credits. The currency of the credits, extended by the USSR to other countries, can be either that of the creditor country, i. e., the

USSR, or of the borrower country, or that of a third country. The currency of a majority of credits extended by the USSR to socialist countries in the form of goods is in rubles, the Soviet currency. But some credits are granted in foreign currency, e.g., in the loan of 1950 to the Chinese People's Republic the currency was in American dollars with a stipulation of their gold content (1 ounce of pure gold = 35 American dollars).

Some of the credits extended recently in the form of goods to non-socialist countries, are expressed in foreign currency, e. g., the credits of 1954 and 1956 to Afghanistan, of 1956 and 1957 to Indonesia, and of 1958 to Argentina, were in American dollars. The 1955 loan to India was in the local currency of that country (rupees), and the loan to Iceland in Icelandic kronen. On the other hand, the loan of 1957 to India and that of 1958 to the UAR, were in rubles, with a stipulation of their gold content. The loan of 1958 to Ceylon was also in rubles.

In currency credits, the foreign currency in which the loan is granted is in easily convertible currency, which can be used for purchases of goods and other payments in third countries. In credits for merchandise, if they are extended and are to be liquidated not in currency, but by supplies of goods, the currency, regardless of whether it is in rubles, dollars or some other foreign currency, is not a freely convertible currency, but only a measure of the value--a unit of reckoning--by which the supply of goods on credit is evaluated. For the purpose of keeping accounts of the use of the credits extended in the form of merchandise, and for its repayment, the prices of the goods supplied should be expressed in the currency in which the extended credit was figured.

V. The Term Aspect in the Use of Credits. In the credit agreements of the USSR with different countries, the time during which the borrower country can use the credit is determined in different ways. In some credits, especially loans in currency, the right of the borrower to use the credit begins immediately after it goes into effect. In credits extended for payment of Soviet supplies of industrial equipment and technical aid, there is usually provision for the period of time during which the borrower can use the credit. Thus, for example, in the agreement of the USSR and the Chinese People's Republic of 1950, the credit was to be granted and used during a period of 5 years; in the credit]

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of 1957 to Indonesia the term was 8 years; in the credit of 1956 to Poland, 3 years. Usually the use of the credit is in equal annual allotments, sometimes with the stipulation that the unused part of the credit in any one year can be used the following year. In currency credits, as for example, those to Finland, the right to use them all at once, or in parts, is sometimes stipulated.

The length of the term of loans and credits has a definite effect on the Soviet economy since, to guarantee the supply of the stipulated items of industrial equipment and other goods, production in any given period must be adjusted accordingly.

VI. Procedure in the Use of Credits for Goods. Supplies of industrial equipment and materials on credit are carried out in accordance with contracts drawn up on the basis of the credit agreements between the Soviet supplying agencies and the clients of borrowing countries. In these contracts prices for the goods to be supplied and definite delivery time limits are fixed. With credits to socialist countries, the economic agencies of the USSR supplying the goods receive payment for the cost of the supplies on account of the state budget, and the economic agencies of the respective socialist countries pay for the cost of the goods to the state budget of their own country.

VII. Interest on Credits. The interest rates on credits are established in the credit agreements and do not change during the whole time the credits are in force, regardless of what the future rate of interest on loans in the world financial market will be. As was indicated in a preceding chapter, the rate of interest on some credits received by the USSR in the past from capitalist countries fluctuated with changes in the discount rate of the creditor country's central bank.

On loans to socialist countries, whether long, moderate or short term, the policy of the USSR in recent times has been to charge 2% per annum. However, after taking into consideration the destruction of the economy of China during the prolonged national war for independence the interest rate on the 1950 long term loan to the Chinese People's Republic was set at 1%. In exceptional cases loans have even been made on an interest free basis.

The unchanging rate of interest, regardless of the term of the loan, represents one of the special features of Soviet credits. Differing widely from this practice, in capitalist countries the longer the term of

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credit the higher is the rate of interest, all other things being equal.

On credits by the USSR to underdeveloped capitalist countries to pay for supplies of equipment and materials and the extension of technical aid, in recent times a rate of interest of 2.5% per annum has prevailed. As was indicated above, these rates of interest are on favorable terms as they are markedly lower than the interest charged by capitalist countries for similar foreign credits.

VIII. Time Limits of Credits. The duration of the credit is usually established exactly in the respective credit agreements. Distinction must be made among the following: 1) the period of time during which the credit is liquidated; 2) the period of time after the credit is spent and before liquidation begins; 3) the terminal term--up to the end of deliveries; and 4) a middle term.

The term of the liquidation of the credit for most long term credits extended to socialist countries for equipment and technical aid (investment credits), is 10 years. This term was set in the loan to the Chinese People's Republic for 300 million American dollars as well as in the 1957 loan to Hungary of 750 million rubles, the 1956 loan to Rumania of 270 million rubles and the 1957 loan to Albania of 160 million rubles.

For credits earmarked to pay for raw materials and food-stuffs, the period of liquidation is shorter. Thus, in the 1956 credit to Poland of 100 million rubles, which was partly in currency, liquidation was to take place in 4 years. In the 700 million ruble credit to Poland of 1957 to pay for the supplies provided for in the special agreement, the credit was to be utilized in 1958-1960, but the liquidation was to take place in 1963-1965, i. e., 3 years. In the 1957 grain loan of 1400 tons to Poland, liquidation was to take place in 1961-1962--2 years. A grain loan to Bulgaria in 1957 was to be liquidated in 1957-1959--3 years.

The period of liquidation of currency loans is not the same in the credit agreements with different countries. Thus, in the loan in free currency of 1953 to the German Democratic Republic, it was for 2 years; in the loan to Hungary of 1957, a loan of part currency and part merchandise, the provision for liquidation was for 10 years.

The terms for liquidation of long term investment



credits to underdeveloped capitalist countries are somewhat longer than to socialist countries. Thus, in the loan of 1956 to Indonesia for 100 million American dollars, the term is for 12 years; this was also the case for the long term loans to India in 1955 and 1957, and to Egypt in 1958. In the long term loan to Afghanistan for 100 million American dollars, the liquidation period was for 22 years. In the 1958 loan to Argentina liquidation of the loan starts 3 years after the delivery of the equipment and continues for a period of 7 years. Both currency credits granted to Finland in 1954 and 1955 are subject to repayment in 10 years.

Under provisions of many loans, repayment begins not immediately after the exhaustion of the credit, but only after some lapse of time. Thus, in the long term credit of 1956 to Afghanistan, liquidation began 8 years after its utilization; in the credit of 1958 to Argentina, 3 years later; in the 1959 credit to the Iraqi Republic, 1 year after the full delivery of the complete sets of equipment provided for in the contracts.

As was indicated above, it is necessary to distinguish the period during which the liquidation of a credit takes place from the terminal and middle periods, during which the borrower makes use of the full sum of the credit.

IX. Methods of Liquidating Loans and Paying Interest. In the credit agreements with the countries of the socialist camp these methods differ somewhat from the provisions in credit agreements concluded with underdeveloped capitalist countries. In the majority of credits for goods to socialist countries both the repayment of the loan and the payment of interest takes place through supplies of goods, as a rule, of goods of the usual exports of the borrower countries, or, to be more exact, on account of the receipts from the sale of these goods to the USSR for later clearing of accounts. In the grain loans in kind liquidation of the credit and payment of interest take place directly in kind, i.e., in deliveries of grain, with money playing no part at all.

The repayment of credits and payment of interest takes place by entering periodically the sums of indebtedness due the USSR on the capital plus the interest, according to the commodity circulation with the borrower country, for clearing purposes. If in the clearing account of the USSR there is found an indebtedness with relation to the borrower country, then the latter is de-

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creased by the sum of the installment of repayment plus interest. In other words, the USSR is freed from the obligation to cover the corresponding part of this indebtedness with supplies of its goods, which means that the credit was liquidated by the borrower with those goods as a result of which the indebtedness appeared on the clearing account.

In some credit agreements repayment is provided for not with goods of customary export by the borrower country, but with products of those units and industrial enterprises for the construction of which the USSR extended credit to that country. The credit agreements between the USSR and Rumania of 1955, and with the German Democratic Republic in 1958, providing for assistance in the development of a chemical industry in those countries, contained such a provision. The repayment of these credits from these countries will be by deliveries to the USSR of products of the respective chemical industries.

Under the provisions of a long term credit to the Chinese People's Republic in 1950 for 300 million American dollars, repayment of the loan with interest was to be by deliveries of raw materials and tea, as well as gold and American dollars. Later these provisions were changed. Repayment of the loan plus interest now took place, by the consent of both sides, by deliveries of customary Chinese exports. As is the case with loans by the USSR to other socialist countries, sums due from the liquidation of the loan plus interest now go to the clearing account of the USSR according to the current commodity circulation with the Chinese People's Republic.

Currency credits are repaid under conditions of the respective agreements either 1) in the same currency values in which they were received, i.e., in gold or in the stipulated foreign currency, or 2) in deliveries of customary exports from the borrower country, i.e., by carrying over the sum of repayment plus interest to the clearing account in the interest of the USSR according to the commodity circulation with that country. The currency loan of 1947 to Poland, as well as the currency loans of 1954 and 1955 to Finland were repaid with goods. The second variant was used in the combined currency-merchandise loan to Poland in 1956 for 100 million rubles. Repayment of this credit is through deliveries of Polish goods. Similarly the currency part of the loan to Hungary in 1957 for 200 million rubles will

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be repaid by its customary exports. Long term loans to underdeveloped capitalist countries are repaid either by stipulated goods, or by receipts from the sale of customary exports, or alternately with goods and/or foreign currency.

Thus, repayment of the 1954 loan to Afghanistan for almost 3.5 million American dollars, is to be in wool and cotton. For the long term loan to Afghanistan of 1956 for 100 million American dollars, repayment will be from receipts of the sale to the USSR of Afghan exports.

For the long term loans to India of 1955 and 1957 repayment will be by a deposit of Indian rupees in the banks of India to the account of the State Bank USSR. The money in this account in rupees can be used for payment by the USSR of goods purchased in India, or it can be converted into British pounds.

Repayment plus interest on the long term 1956 loan to Indonesia can be through receipts of the sale of Indonesian goods to the USSR, or with British pounds sterling as well as with other convertible currencies mutually assented to by the State Bank USSR and the Central Bank of Indonesia.

The long term credit to Egypt of 1958 for 700 million rubles, plus interest, will be liquidated by depositing the stipulated sums in Egyptian pounds sterling in a special account for the State Bank USSR in the National Bank of Egypt. The deposits in Egyptian pounds can be used for payment of goods as per agreement between the USSR and Egypt, and/or can be converted to British pounds or other convertible currency, as per agreement between the banks.

The conditions of repayment of Soviet credits to underdeveloped capitalist countries have one common feature, namely, that the USSR does not require of them payments in foreign free currency, especially not in American dollars, in spite of the fact that some of the credits are expressed in such currency. Taking into consideration the difficulties of the underdeveloped countries, the USSR agrees to liquidation of their credits by deliveries of their customary exports, or by their local currencies which are convertible into British pounds sterling and which play an important role in the international accounts of these countries.

In almost all the credit agreements of the USSR with socialist countries as well as non-socialist countries, the liquidation of long term credits was to

be in equal annual installments within the stipulated time. As an example one can point to the credit agreement of the USSR and the Chinese People's Republic of 14 February 1950, according to which liquidation of the loan of 300 million American dollars will take place over a period of 10 years in equal annual payments--one tenth of the credit received--not later than 31 December of each year. The first installment was due not later than 31 December 1954, and the last not later than 31 December 1963.

X. Drawing Up Credits and Credit Accounts. In the first long term and moderate term credits granted by the USSR after World War II to different popular democratic countries, frequently the arrangements of these credits were through receipt from the borrower country of special obligations similar to bonds. Later, this practice, which is well known in capitalist countries, ceased to be used. At the present, all credits granted by the USSR to socialist countries and to the majority of underdeveloped countries, are arranged by entering the sums of utilized credit in special accounts carried in the State Bank USSR and in the central banks of the respective borrower countries. These accounts also show repayments on these credits plus interest. The working method of keeping these accounts and calculating the utilization and liquidation of the credits is agreed upon by the USSR State Bank and the central banks of the borrower countries.

In the long term credit of 1958 to the Argentine Republic of 100 million American dollars the form of the credit was through acceptance by the USSR of bills of exchange guaranteed by the Argentine government and issued by the organizations receiving the equipment on credit.

The question of credit arrangements has an important significance also in the extension of commercial credits by the Soviet foreign trade agencies to firms and organizations of capitalist underdeveloped countries. In the case of the sale of Soviet goods on deferred payments, a more expedient form of arranging credit is by acceptance of promissory notes from the borrowing purchaser. In this connection, if the customer is not the government or an organization for which the government will assume responsibility, but private firms and businesses of some other kind, then security of payment can be obtained through a guaranteed promissory note of the government or central bank of the customer's country.

There are cases where under certain conditions these negotiable notes can be discounted in local or foreign banks, or loans can be obtained in these banks, with these notes as collateral.

XL. Including a Gold Stipulation in the Provisions of the Credits. As was indicated previously, a number of credits granted by the USSR to other countries are expressed in foreign currency. In some of these provision is also made for the liquidation of the credits. In view of the instability of capitalist currency during periods of general capitalist crises, from which even the American dollar is not exempt, it becomes advisable to include in the provisions of the respective credits a gold stipulation. This is of special significance in the case of long term credits. Furthermore, a gold stipulation should express its dual aspect. If the loan is granted in foreign currency, e.g. in American dollars, and the utilization of the loan is for a duration of several years during which the currency of the loan may depreciate, then the borrower country will receive on the loan from the creditor country a smaller quantity of industrial equipment and of other goods than was provided for when the credit agreement was concluded. On the other hand, if the depreciation of the currency in which the loan is drawn up, takes place after its utilization during the period of liquidation, then the creditor country suffers, because the debtor country will deliver for liquidation of the loan a smaller quantity of goods. These are the consequences when depreciated currency results in a corresponding rise in the prices of the goods supplied in the course of the extension of the credit and its liquidation. In this connection, the gold stipulation in long term loans protects the interests of both creditor and debtor country.

The gold stipulation with this dual aspect was included in the provisions of the long term loan of 1950 to the Chinese People's Republic of 300 million American dollars, in the long term loan to Afghanistan of 1956 for 100 million American dollars, in the long term loan to the Argentine Republic of 1958 for 100 million American dollars, and in several other loans.

In a number of loans granted by the USSR to undeveloped countries where the amount of the credit is expressed in rubles the gold content of the ruble is indicated. Examples of this are the loans of 1957 to India and of 1958 to Egypt and Ceylon.

Thus, in the agreement between the USSR and Egypt of 29 January 1958, in which credit is granted in rubles but its liquidation is in Egyptian pounds, gold stipulations are provided for, in relation to the ruble as well as in relation to the Egyptian pound. In case of a change in the gold content of the ruble before full utilization of the credit, the amount of the credit that still remains unused should be revised in accordance with this change, in order to maintain the gold equivalent of the unused part of the credit. Similarly, in case of a change in the parity of the Egyptian pound, then the balance in the account in favor of the State Bank USSR in the National Bank of Egypt, in which are entered the payments of the credit liquidation, should be revised proportionate to the change that has taken place in the gold content of the Egyptian pound.

5. Conclusions. Prospects for Developing the International Credit Relations of the USSR.

As is evident from the preceding, the USSR has changed since the war from a debtor country, using credits of capitalist countries, into a creditor country, extending credits to socialist and non-socialist countries. The sum total of long term credits extended by the USSR to countries of the socialist camp was, in July 1957, 28 billion rubles. [See note] If to this figure are added the long term credits granted by the USSR to capitalist countries from 1954 to June 1959, amounting, according to figures published in the Soviet press, to more than 4 billion rubles, then the total figure of credits granted by the Soviet runs to more than 32 billion rubles. This figure exceeds by many times the total sum of the credits received by the USSR during the time of and after World War II from capitalist countries (England, the US and Sweden), and also the total sum of the pre-war foreign trade credit indebtedness of the USSR to capitalist countries, which at the end of 1931 amounted to almost 4,880 million rubles adjusted to the 1950 rate of the ruble.

(Note. See article, "Economic Collaboration of Countries of the Socialist Camp," Pravda, 14 July 1957.)

The figures cited indicated that the credit balance of the USSR with the foreign world has at the present time a significant active balance in favor of the USSR, and that the USSR therefore appears as an important creditor country. But, as was shown above, the USSR is a

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[ creditor country of a special kind, markedly different from the capitalist creditor countries. This is explained by the fact that in a socialist economy there is an absence of those causes which compel capitalist countries to occupy themselves with the export of capital, including the form of extending loans and credits to other countries.

- The credits granted by the USSR to other countries have nothing in common with the export of capital in a capitalist economy. In a capitalist economy the export of capital becomes, in the period of imperialism for the more prosperous capitalist countries, an urgent necessity. As Lenin pointed out, "the need for the export of capital is created by the fact that in some countries capitalism 'became overripe,' and capital lacked opportunities for 'profitable' investment, (under conditions of underdevelopment of agriculture and the poverty of the masses)."

Because of the unwillingness of capitalists to use surplus capital for the development of agriculture and raising the standard of living of the workers, since this would mean a lowering of profits, these capital funds rushed to backward countries where cheap raw materials and low wages promised a maximum profit, as well as to industrially developed countries, when the extension of loans to these countries offered the creditor definite benefits.

Under conditions of a socialist economy, having destroyed the basic conflict of capitalism--a conflict between the social character of production and the private form of ownership--causes are absent which in capitalist countries call forth the necessity of exporting capital. In the planned economy of the USSR there can be no "surplus capital." The development of productive forces in a socialist commonwealth does not rest on the narrow limits of a demand that must bring profits, as is the case in a capitalist economy. Reserves, which have accumulated in a socialist economy, are directed in a planned manner toward purposes of expansion of socialist production, aimed at raising the standard of living of workers, in keeping with the basic economic law of socialism.

Credits extended by the Soviet Union cannot, by the very nature of the socialist economy, pursue mercenary ends of earning abroad a higher profit, of exploitation and enslavement of debtor countries, as is mostly the case with credits granted by capitalist countries. In view of the absence in a socialist economy of a special ]

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category of capital as surplus funds, bringing additional profit, and therefore also the absence of a category of capital for loans, the material values which the Soviet Government extends to other countries, under conditions of equal return within a definitely set period, are similar only in form to the credits in a capitalist economy. The aim of these "credits" is rather the extension of friendly disinterested economic help to other countries-- socialist and non-socialist.

The objective economic laws of socialism find their reflection also in other characteristic features of international credit relations on the part of the Soviet Government. The interest rates on credits granted by the Soviet Government to other countries are standard rates and are not determined, as is the case in capitalist countries, by the fluctuations of loan interests on the world money market. It is easy to be convinced of this from the comparison made above of the interest rates on loans and credits extended by the USSR during recent years to socialist and non-socialist countries, with the interest rates on loans and credits extended during this same period to different borrower countries by the United States and other capitalist countries, as well as by the International Bank for Reconstruction and Development.

The independence of interest rates on credits provided by the Soviet Government to other countries from the rates of the loan interest of the world capitalist market, is explained by the fact that credits granted by the USSR to other countries are not a movement of loan capital, and for this reason, are not controlled by regulations characteristic of loan capital in a capitalist economy.

One of the consequences of socialist productive relations is the characteristic unchanging exactness and accuracy, well known to capitalist business circles, of the Soviet Government and the Soviet foreign trade organizations in the fulfillment of the credit obligations that they have assumed. Quite a different picture is observed, as was shown above, in the capitalist economy, in which, because of the function of the law of anarchy in production and competition, economic crises are inevitable, resulting in bankruptcy and non-payment of domestic and foreign debts. Non-fulfillment of foreign credit obligations can have no place in the USSR, in view of the absence in a socialist economy of crises of over-production, and also because of a planned national economy and, in particular, of planned international cur-



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[ rency and credit relations. In these plans provisions are made for adequate USSR currency resources to liquidate on time all foreign credit obligations and the interest thereon. In connection with this, the capitalist countries have never in the past had any objective grounds for doubting the capacity for payments by the Soviet Government. This, however, did not stop reactionary circles of these countries hostile to the USSR from spreading slanderous rumors about the incapacity for payments by the USSR, or about its financial ruin. These slanderous campaigns always ended in disgraceful failure for their inspirers.

According to the demands of the economic law of the planned development of a national economy, the development of international credit relations of the Soviet Government takes place according to plan, and not secretly as happens most of the time in a capitalist country. International credit relations are conducted by the Soviet Government in the form of a single economic unit, conducting foreign trade on the basis of a government monopoly.

The credits granted by the USSR to other countries, indicating a movement of material values from the Soviet economy to the economy of the borrower countries, and also the contrary movement of material values in the liquidation of credits and payment of interest from these countries into the USSR, are provided for in the national economy and in the export-import plans of the USSR. The credits of the USSR to other countries, socialist as well as underdeveloped capitalist countries, represent, as was stressed earlier, one of the forms of friendly, disinterested economic aid to these countries.

From a narrow commercial point of view, extension by the USSR of credits to other countries does not carry with it the receipt by the Soviet economy of some kind of immediate benefit in the form of a higher profit on capital, as is the case in capitalist countries, or of any other gains. For the Soviet Union it would be more convenient for its planned economy, instead of transferring to borrower countries in the form of credits industrial equipment and materials, to use them herself for domestic purposes to expand production, with the aim of sending out an increased number of products to foreign countries in exchange for goods needed by the Soviet economy. The charges on credits by the USSR in the form of interest, the size of which, by the way, is markedly lower than the interest on the world capitalist markets, ]

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[ represents only some small compensation to the Soviet Union for those losses which the Soviet economy suffers as a result of the withdrawal of material values for the extension of credits to other countries.

To socialist countries the Soviet Union extends disinterested fraternal aid, growing out of the principles of proletarian internationalism. By force of these principles socialist countries that have reached considerable success in the development of their economy, consider themselves obligated to extend fraternal support to other countries, united as they are with them in the ideology of Marxism-Leninism and the common purposes of the struggle against imperialism for the building of socialism and communism. The aims which the Soviet Union pursues in granting credits to these countries when they are in need of such credits, consists in this: to make possible the economic progress of these countries, the strengthening of the world socialist system and, thanks to this, the speedier attainment of the universal victory of communism.

With relation to the credits of the USSR to underdeveloped countries, these credits, too, serve as disinterested help extended by the Soviet Union, just like the credits to the camp of socialist countries, although the motives and aims of extending this aid are different one from the other. The USSR, as well as the other socialist countries considers it essential to help the countries which have recently freed themselves from the colonial yoke, and who are struggling for the strengthening of their economies, but have not yet overcome their dependence on imperialist governments. As N. S. Krushchev pointed out, the USSR considers such aid an urgent task from the point of view of humanity and the solidarity of mankind. Stressing that this aid is of an unselfish character, N. S. Krushchev says, "There is, however, a 'selfishness' of a certain kind (I put the word in quotes), having nothing in common with material selfishness, exploitation, and bait for catching people. It consists in this, that by extending economic, technical and other help, we create for these countries the conditions so that they, now that they have freed themselves from colonial enslavement, should not fall for some humiliating bargain with colonialists, should not go to them hat-in-hand, should not subordinate their economy, and that they should be able to resist attempts to impose upon them old colonial relationships, even if in a changed form. Helping these countries to set up their

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industry, develop their economy, improve the welfare of their peoples, by that very fact we help them to strengthen their independence which they have won in the struggle with the imperial colonialists." ("Speech of N. S. Khrushchev, Pravda, 13 July 1958.)

In a number of underdeveloped countries of Asia and Africa, in particular India, Afghanistan, the United Arab Republic and others, with the help of Soviet credits - guaranteeing supplies to these countries (without immediate repayment) of industrial equipment and the technical aid of Soviet specialist, enterprises are being built in heavy industry and other branches of industry, electric power stations, ports, canals and roads. All this helps the acceleration of the tempo of economic development of these countries and is favorably reflected in the material and cultural level of their peoples.

It is in this that the difference lies between the USSR as a creditor country and creditor countries in the capitalist world. The positive aspect of international credits--the ability to assist the development of productive forces in the economically backward countries--this is paralyzed to the highest degree and takes on abnormal forms under capitalism, especially in the last stages of its development, under monopolistic capitalism. International credits are used as weapons of exploitation and enslavement of economically weak and backward debtor countries by the industrially developed creditor countries.

Only under socialism, as is shown in the development of credit relations between the USSR and socialist and non-socialist countries, does international credit fully manifest its inherent progressive tendencies--to help the progress of seriously backward countries and peoples and to have a positive influence on the development of all humanity.

The grand planned program for peaceful construction, indicated in the scheduled figures for developing the national economy of the USSR in 1959-1965, also opens up wide prospects for the development of foreign economic ties with the USSR. As is indicated in the figures of the plan, the foreign trade turnover of goods between the USSR and the socialist countries will increase in 1965 one and a half times and even more, in comparison with 1958. The foreign trade turnover of goods with the underdeveloped countries which has increased five times in 1957 compared to 1953, will be broadened even further, as far as one can tell.

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The development of foreign trade is accompanied by development of credit relations among countries and, conversely, the development of credit relations leads to the increase of turnover in foreign trade. In connection with the vast growth of the economic might of the USSR in its new stage in the progress toward communism and thus in the increase in foreign trade, there is good reason to assume the further development of international credit relations of the USSR. As far as the growth of its economy permits, the Soviet Union will in the future extend economic aid to the socialist countries and to underdeveloped capitalist countries, including the extension of credits, if they ask for them. Deliveries, based on Soviet credits, of industrial equipment and the extension of technical aid to the peoples of underdeveloped countries, will help the latter lay a solid foundation for their economies and advance their national science and culture. (See "Speech of N. S. Khrushchev," Pravda, 13 July 1958.)

In regard to the countries of the socialist camp, their significant successes in developing their economies, especially in industry and agriculture, will no doubt have the well known consequence of decreasing the need for Soviet credits in some of the socialist countries, e.g., in the Chinese People's Republic.

Not to be excluded in the future is the possibility of developing credit relations between the USSR and the industrially developed capitalist countries with the aid of using the credits of these countries for mutual benefit. In the communication of the Chairman of Soviet Ministers of the USSR, N. S. Khrushchev, to the President of the US, D. Eisenhower, dedicated to the question of improving Soviet-American relations, and in part to measures which could help normalize these relations, there is reference to the possibility of placement by the Soviet Union of large orders with American firms for some types of industrial equipment, materials and manufactured articles, and also to the readiness of the USSR to purchase more American goods than to sell to the US. In connection with this, continues the communication, there arises the question of the possibility of payments by installment and the extension to the Soviet Union of long term credits under usual conditions. This proposal of the Chairman of Soviet Ministers of the USSR represents a profitable operation both for the USSR and the US. For the USSR, the realization of this proposal would help to speed up the

fulfillment of the program of freeing consumer products to satisfy the demands of the Soviet people; and for the US it would mean the possibility of increasing the work of its industrial enterprises and also to increase employment, in cases of recession.

In the development of international credit relations not only the borrower country but also the creditor country has great interests at stake. Credit relations, when they are based on principles of mutual benefit and equality of parties carry along with them the establishment of closer, more prolonged and solid foreign trade and other economic ties between the country that supplies the credit and the country which receives it. Since the export of goods is a consequence of international credits, the borrower country has the opportunity of becoming acquainted with the goods manufactured in the creditor country. In its turn the creditor country gets acquainted with the merchandise of the borrower country, because liquidation of credits, plus interest, really takes place through deliveries of goods from the borrower country. As a consequence of this interchange there can come a development of mutually profitable trade between the corresponding countries not only on credit, but on a cash basis. In this manner, under normal conditions international credits can lead to a widening and deepening of economic ties among countries.

The possibility of utilization by the Soviet Union of credits from industrially developed capitalist countries for acceleration of the development of its productive forces cannot be considered as something incompatible with its role as a creditor country, extending credits to socialist countries and backward capitalist countries.

Even among industrially developed capitalist creditor countries there are no countries whose physical and legal representatives would only wish to extend credits to other countries, but would never themselves make use of the credits of other countries. Furthermore, there is nothing reprehensible in a socialist country receiving credits from capitalist countries. The policy of peace and peaceful coexistence, to which socialist countries adhere, presupposes development of economic and, of course, also mutually profitable credit ties among countries with different economic and political systems. Everything depends upon what conditions and for what purposes the socialist country receives credit from capitalist countries. The history of the credit re-

lations of the Soviet Union with the industrially developed capitalist creditor countries, when it was the only socialist country in the world, shows that the credits of these countries, under conditions that uphold the principles of equal rights, mutual benefits, non-interference in the internal affairs of the borrower country, and the absence of any kind of humiliating conditions can play a positive role in the development of the productive forces of the socialist country.

## CHAPTER IX

### BALANCE OF PAYMENTS AND PLANNING OF INTERNATIONAL ACCOUNTS

#### 1. Balances Reflecting International Account Relations.

##### USSR's Balance of Payments

One of the characteristic peculiarities of international currency transactions of the USSR, as a socialist state, is the planning of its international accounts ahead of time, which have become known as currency plans in Soviet terminology.

In order to better understand the essence and basic principles of the methodology used by the USSR in planning its balance of payments it would be best to briefly review the various types of balances, reflecting the international accounting transactions among the countries and its differentiation from the balance of payments concept.

The international balances, which reflect the accounting transactions between countries, involving such matters as foreign trade, and other forms of economic and non-economic intercourse between them are: trade balances, accounting balances over specified periods of time together with their equalizing factors which are balances of credit and property movements, balances of international indebtedness and credits, or dated accounting balances, and payment balances.

Balance of Trade The balance of trade, in the proper sense of the word, is the relationship of the value (sum total of prices) of the exported goods to imported goods for a country over a specific period of time. Trade balances are computed on the basis of customs data by means of foreign trade statistics.

The trade balances of most capitalist countries show the value of import and export in prices borne by the goods at the time of their transfer across the border of the country -- that is, the export goods, are shown at FOB and import goods at CIF. Certain countries, such as the USA, Canada and Japan, show their export and import values in their trade balances on the same basis -- at the FOB prices. This is the system used by the USSR in forming its own trade balances.

The balance of trade is called active when the value of exports for a given period exceeds the value of imports, and passive when the value of imports exceeds the value of exports. The accepted term for a trade balance where the

export values are equal to the import values is net balance.

In speaking of trade balances, one usually supposes that a trade balance means the relation of the value of goods sold to those bought by one country in another over a given period of time, i.e., one proceeds from the presupposition that all goods exported during a given time were sold and delivered, and that all imported goods were bought and received by the country in this period.

Actually, the value of imported and exported goods in the trade balance is estimated independently of the fact of whether they were bought and received during that period.

Goods can be exported from a country unsold when it is intended to sell them abroad gradually from a warehouse, in such a way that part of the exported goods in a given year may turn out to be unsold by the end of the year. Beside this, there are goods which are exported as gifts, reparations, raw materials, etc., these are also reflected in the balance of trade. The country exporting such goods does not receive an equivalent supply of goods, services or gold in return.

Account Balance for a Specific Period. The selling and buying of goods is, for the majority of states, the basic factor which stimulates monetary demands and obligations in relation to other countries. However, monetary demands and obligations may arise among countries aside from foreign trade, this being a consequence of other economic and non-economic relations among them.

In connection with this, along with a concept of the balance of trade in the sense of a balance reflecting the monetary demands and obligations which occur in consequence of the selling and buying of goods, it is expedient to form a conception of a broader balance, encompassing all other economic and non-economic relations existing among countries which call for mutual accounting. Such a balance may be called the account balance of a country.

The account balance for a specific period is the correlation of monetary demands and obligations which have arisen in the course of this period in a given country in relation to all other countries in consequence of foreign trade and other economic and non-economic relations with those countries. The usual items appearing in the account balances of developed capitalist countries are the following: the sale and purchase of goods and gold; the receiving and extension of services in the domaine of navigations, and other forms of transportation, insurance, means of communication, brokerage and bank operations, technical aid, sale of patents, and the like; expenses and incomes through international tourism remittances of immigrants, foreign workers, and other remittances of a non-commercial and charitable



nature; upkeep of diplomatic and other official representation abroad; remittance of interest, dividends and profits through foreign credits, securities, and investments.

In the account balance, as distinct from the balance of trade, it is not the amount of export and import of goods that is shown, but rather the amount of goods sold and delivered to buyers on one hand, and the amount of goods bought and received from the suppliers of goods for a given period, on the other; this is independent of whether or not they were exported or imported in the given year or in the past years.

It is also necessary to stress the fact that an account balance is the correlation of monetary demands and obligations of a country in relation to other countries; which is independent of whether or not these monetary demands and obligations were paid in cash in the course of the period, for which the account balance is prepared. It is in this that an account balance is distinguished from a payment balance.

Actually, the extension of credit by some countries to others as well as the settlement of these credits as well as foreign capital investments can occur only in the form of goods, gold or the rendering of services which have a monetary value. Because of this the remainder of the account balance for the corresponding period will be the overall movement of credit and property (capital investments) for this period.

When a country has an excess of such monetary demands as may have arisen in the course of a given period, over its monetary obligations in relation to other countries, we have what is called the active remainder of the account balance for this period; and this excess signifies that this country either extended credit to other countries for the sum of the indicated remainder or paid off its former debt to these countries, or else either one or the other may have taken place in some correlation. But when a country has an excess in such monetary obligations as may have arisen in the course of a given period over monetary demands in relation to other countries, we have what is called the passive remainder; and this excess signifies either the fact that the country received credits from other countries for the sum of this balance, or else other countries have paid off their previous debt to the given country for this sum; or, it may be partly one or the other.

The account balance for a specific period is brought into equilibrium by the movement of credit and property (capital investments). The passive remainder of the balance of the movements of credit and property should match the active remainder of the account balance, and the passive remainder of the account balance -- the active remainder of

the balance of the movement of credit and property. Items in the balance of the movement of credit and property may be subdivided into long-term and short-term transactions.

It is the accepted thing to relate to long-term transactions the following: the buying and selling of enterprises, land and houses abroad; the purchase and sale of shares, interests and bonds of other countries, as well as new issues of these securities; the extension and payment of long-term credits which are not in the form of bonds. The following are considered to be short-term transactions: short-term credit for goods; the receipt and payment of short-term monetary credits; short-term investments of capital in the form of deposits and current accounts in banks; the buying and selling of bills of exchange and analogous securities; the purchase and sale of foreign paper money, which are in essence the allocation of credits for claims by other countries or the receipt of such credit from other countries.

The Balance of International Debt and Demands or the Account Balance For a Definite Date. For the full revelation of a country's credit relations with other countries, and of the state of its international debt it is insufficient to know its account balance and balance of movement of credits and property over a specific period of time, as these balances encompass such monetary demands and obligations as may have arisen for this period only.

In order to judge the general state of monetary demands and obligations of a country in relation to other countries, it is necessary to know the balance of its international debt and demands or the account balance for a given date. The balance of the international debt or the account balance for a given date (usually the beginning of the calendar year) is the correlation of all the demands as well as obligations, and property (capital investments) having a monetary value of the country in relation to all other countries for this date.

All monetary demands and obligations which a given country has in relation to other countries go into the balance sheet of international debt for a definite date; irregardless of the time of their occurrence, only if they have not been liquidated by the given moment. This balance includes not only the purely credit demands and obligations but also property (direct capital investments) abroad. Such property of a country existing abroad in the form of houses, land, factories, plants, interest in enterprises, possession of bonds, etc., is considered as a country's monetary demands on foreign countries, and similar property of other countries in the given country, as the monetary obligations of that country in relation to abroad.

The balance of international debt as well as the bal-

ance of the flow of credit and property, is subdivided into long and short-term monetary demands and obligations.

It is the accepted thing to attribute the following to monetary demands and obligations: property abroad in the form of houses, land, factories, plants, etc.; possession of foreign securities (shares, bonds, mortgages, interests, etc.); demands and obligations for long-term loans and credits which have not taken the form of bonds or other securities.

As for short-term monetary demands and obligations, one refers to them as the demands and obligations: on credit for goods and other forms of commercial credit; on monetary short-term credits by firms and banks; on deposits and current accounts in banks and other short-term obligations as well as remainders of demands or debts; in clearing account; in such native paper currency as exists abroad and in such foreign paper money as exists at home.

The assets of the balance of international debt at a given moment consists of a country's entire amount of property abroad and of all demands on credits given by that country to foreign countries, whereas the liabilities of the balance consist of all the property of other countries in the given country, and of the obligations on credits given to that country by other countries.

Individual items of the balance of international debt can be found either on the asset or in the liability sheet, depending on whether the amount of monetary demands exceed the amount of the country's obligations with relation to other countries, or whether the opposite holds true. The very same thing can also be said with respect to the accounting balances of long and short-term transactions, which may not tally and be of a different nature.

If one were to judge whether a given country occupies in the world economy a position of a creditor or that of a debtor, it is usual to make the judgment on the basis of the final general active or passive remainder of the balance of international debt. Such a deduction does not, however, always correspond to the actual state of affairs in the light of the fact that the short and long-term credits have an unsimilar economic meaning. Thus, the indebtedness of a country for short-term transactions for example, in the form of amounts which are in current accounts belonging to enterprises and citizens of other countries in its banks, in consequence of these or other temporary causes exceed the amount of its investments abroad and of its long-term loans to other countries. Therefore, the determination of whether the country is a creditor or a debtor to other countries should, as a rule, proceed in the absence of complicating circumstances from the activeness or passiveness of the balance of its international debt for long-term operations only.

The Balance of Payments. Among the international account balances in the broad sense of the word, the balance of payments occupies a special place. Under conditions of the capitalist economy the fluctuations of the rate of exchange for the country's currency depends on this balance of payments. Because of this the balance of payments plays a significant role in the economy of all the capitalist countries.

K. Marx characterizes the balance of payments as "a balance of those payments which become due and require immediate liquidation." ([Note] See K. Marx, Das Kapital, Vol III, 1949, page 505).

Proceeding from this, as well as from Marx's position on currency exchange, the balance of payments may be defined as a correlation of all monetary demands and obligations of a country in relation to other countries which have occurred as a result of diverse economic and non-economic relations among them, and which are due by a given time and are subject to immediate payment in cash.

Inasmuch as such monetary demands and obligations of a country which are payable at a given moment determine the correlation of demand for and supply of the means of payment in foreign currency on its currency market, the current exchange rate of a country, as K. Marx showed, depends first of all on the state of its balance of payments at a given time. ([Note] See K. Marx Das Kapital, Vol III, 1949, page 605.)

At the same time, one must keep in mind the fact that not all monetary demands and obligations which are due by a fixed date are actually paid fully in cash. Some of these obligations, especially in periods of economic crises, are, in fact, not paid off due to bankruptcy of the individual debtors. Since bankrupt debtors do not present a demand for means for foreign payments from the currency market, this category of obligations does not even influence the currency rate of exchange. A country's balance of payments is put into equilibrium in these cases through bankruptcy, and the non-payment of their obligations by individual debtors.

Under conditions of capitalist economy the balance of payments, in the process of being balanced, in a way which influences the currency rate of exchange, differs from the balance of payments for the expired terms.

The balance of payments for an expired term, for example, for a day, month or a year, is the correlation of such monetary demands and obligations as have arisen in a country as result of all economic and other relations with other countries, and which are due some time in the course of this period, which have actually been liquidated by cash payments. Since these demands and obligations were accompanied by specific payments, the balance of payments for the past period

may be determined in the same manner as the correlation of payments coming into a given country from abroad, and payments made by a country abroad for a corresponding period of time.

The balance of payments for a specific period of time could be called the account balance of payments, in order to stress its difference from the balance of payments in the process of being balanced which affects the currency rate of exchange.

The indicated opposition in the balance of payments in the process of being balanced, which affects the currency rate of exchange, and the balance of payments for an expired term (account balance of payments) does not, under the conditions of socialist economy, have any cognitive significance. This is explained by the fact that in the USSR it is not compiled under the influence of a fluctuating market as in the capitalist countries, but is established on a planned basis and is always maintained in balance. Because of this the rate of exchange of the currency in the USSR is not dependent on the state of the balance of payments (see above, Chapter Three). In connection with this, in terms of socialist economy, one may consider well founded the drawing of a distinction only, between the following: on the one hand, the understanding of a plan of balance of payments, or the perspective balance of payments, and, on the other, the account balance of payments, which are the result of the fulfillment of this plan. Whereas under conditions of the capitalist economy, the balance of payments in the process of being balanced never, as a rule, found in a state of equilibrium, the current balance of payments, representing the settled monetary demands and obligations for the given period, through the state of affairs, will always be in balance.

Despite the fact that the balance of payments eventually attain a balanced state, the question is how this balance is attained. In the balancing of the balance of payments all its component, i.e., all items of debit and credit take part; irregardless of the types of economic and non-economic relations among the countries calling for the payments and receipts.

Under conditions of anarchy and a complete lack of plans existing in the capitalist economy, this balancing comes about mainly in an utterly disorganized way; the flow of gold, which fulfills the function of world monies (gold being the universal means of payment in international accounts) is the final means for bringing the balance of payments into equilibrium.

The mechanism of balancing of payments through the flow of gold works in the following manner. If those monetary obligations of a country which are due by a fixed date exceed the monetary demands to other countries, then there is

an increase in the demand on the means for payment in foreign currency on the currency market; this brings about a drop in the exchange rate of the national currency. In the case of a direct or indirect connection of a given currency with gold, this drop in the exchange rate will stimulate the export and sale of gold abroad, when a certain limit (the gold export point [See Note]) is reached. If the monetary demands (those due by a fixed date) exceed such monetary obligations (also due by a fixed date) existing in relation to other countries, then this will cause an opposite effect. The latter phenomena will stimulate the import of gold into the given country from other countries.

([Note] The gold export point is the exchange rate at which it becomes more profitable to sell gold to another country for its currency, than to sell the national currency.)

The central emission banks of the capitalist countries usually tend in diverse ways (through policies of discounts and slogans, and others) to protect their gold reserves from leaking abroad. Only when all these means prove insufficient to bring the payments into equilibrium does the central bank (or the government currency fund) conduct the exportation and sale of gold abroad.

It follows from this, that in the end the equilibrium of payments of the capitalist countries is attained by the transfer of gold. Together with this, the balancing of payments (especially during economic crises) can occur, as indicated above, through the bankruptcy of debtors, i.e., complete or partial non-payment by them of the monetary obligations due by a fixed date.

Inasmuch as gold under the conditions of capitalist economy is the final means of balancing payments, the excess of the export of gold over the import (sales over purchases), signifying the excess of those monetary obligations of a country in relation to foreign countries which are due by a fixed date, over its monetary demands to foreign countries for a given period, is regarded as an index of passivity in the balance of payments. An excess in the import of gold over the export (purchasing over selling) attests to the excess of monetary demands on foreign countries, due by a fixed date over monetary obligations to foreign countries, serves as an index of the activity of the balance of payments.

The active balance of payments as well as that of trade is often called a favorable balance, and the passive an unfavorable. These terms came into use about 300 years ago

in connection with the doctrine of the mercantilists, who considered that every state should strive for an active balance -- a surplus of export; so that it might receive in exchange for the latter, gold and silver and might thereby increase, as much as possible, its reserve of precious metals. These terms cannot, under modern conditions, signify in all cases the positive or negative appraisal of foreign trade and in general, the economic condition of a country in the world-economy. The sole reason for the retention to this day of the terms "favorable" or "unfavorable" with regard to balance lies in the fact that the active balance of payments counteracts the depreciation of the currency and leads to the raising of its exchange rate in the foreign currency market, whereas the passive balance leads to a lowering of the currency exchange rate.

It is necessary to emphasize that under the conditions of convertibility of currency the export or import of gold for the purpose of balancing payments does not set in as a result of the passivity or activity of the balance of payments with some individual country or with a group of countries, but is the result of a final general passivity or activity of the balance of payments with the entire aggregate of countries with convertible currencies.

Not all exports or imports of gold will be theoretically correctly considered as an index of the passivity or activity of the balance of payments, but only those which will occur when gold appears as the world money, as a universal means of payment. The flow of gold as an item of trade is not directly linked with bringing about the balance in payments. Therefore, in practice the balancing of payments in capitalist countries comes about mainly by the utilization (the decrease or increase) of the gold reserves of the central banks or of the government currency funds (the so-called monetary gold).

Under present conditions when currency restriction, which prevents the free transfer of gold, are still in existence in many capitalist countries, the balance of payment is not an entity, as it was with the general convertibility of currencies, but is in essence composed of a series of balances with individual countries which are not connected with one another. Whereas with the existence of a free convertibility of currency the active remainder of the balance of payments of one country could be used for the payment of the passive remainder of the balance with another country or countries, with the present widespread existence of currency restrictions and the resultant bi-lateral clearing accounts, the balance of payments must be conducted individually with each country by means of a restricted or clearing currency.

K. Marx's observation that the balance of payments is

the balance by payments which fall due has an important significance also for a exact demarcation precise differentiation between the notions of the balance of payment and of trade. The majority of bourgeois economists who wrote before K. Marx did not make a strict distinction between the balance of trade and of payments. Often using the term "balance of trade" in order to designate phenomena which are encompassed in the concept of balance of payments in the above sense.

In opposition to the bourgeois economists of his time, K. Marx made a clear distinction between the balance of payments and the balance of trade. K. Marx indicates that "the balance of payments is distinguished from the balance of trade in that the former is a balance of trade, the payment of which has to take place by a definite time." ([Note] K. Marx, Das Kapital, Vol III, 1949, p 532). With this K. Marx emphasizes that only those payments in foreign trade which are due by a fixed date enter into the balance of payments; and these payments would fall due in the period encompassed by the balance of payments. Demands and obligations in foreign trade which are subject to payment in later periods do not concern the balance of payments for the given moment and, therefore, do not affect the rate of exchange. In the first place, this pertains to all the sales and purchases of goods on credit, i.e., by payment at later dates. The goods sold or bought on credit reflect on the balance of payment for the period during which the settlement of these credits falls due, but not for the period when these goods were imported or exported, sold or bought.

In connection with this K. Marx establishes that the export of capital in the form of goods does not influence the balance of payments and the rate of exchange of the given moment. Examining the balance of payments and the rates of exchange of England and India, K. Marx shows that "if capital is exported in the form of rails, etc., then this absolutely cannot have any influence upon the rate of exchange, because in this case India does not have to make any kind of return payments for this." ([Note] See K. Marx, Das Kapital, Vol III, 1949, p. 591).

Thus, the distinction and inter-relationship between the balance of payments and the balance of trade comes to the following: Only that portion of the balance of trade for a given period influences and is a component of the balance of payments for the same period during which the exported and imported goods were sold, purchased, and paid for in cash.

Payments for goods enter into the balance of payments for a given period of time not only for those goods which were imported or exported during this period, but also for goods exported and imported earlier, if the payment of credits



received in the past (by way of the export of capital in the form of goods) falls in the given period.

The balance of payments is a broader concept than the balance of trade. It embraces payments not only in foreign trade, but in all other forms of economic and non-economic relations among countries, if the payments for these fall due during the given period.

K. Marx's definition of the concept of the balance of payments permits a necessarily concise examination of the basic differences of the USSR's balance of payments from the balance of payments of the capitalist countries.

The balance of payments is one of those categories of the capitalist economy which, retaining its old form, change their nature and function in the socialist economy and are filled with new content.

The USSR's balances of payments differ radically from the balances of payments of the capitalist countries: in their content, the manner of their balancing and the method of compilation of the perspective and account balances. These distinctions ensue directly from the nature of socialist economy.

In their content the USSR's balances of accounts reflect the international economic ties of a socialist country, which are in principle different in character from the economic relations existing among the countries in the capitalist economy.

A policy of unrestrained economic expansion and aggression appears openly in the balances of payments of the imperialist states. The balances of dependent, semi-colonial, and colonial countries reflect a condition of economic and political dependence and enslavement.

The USSR's balances of payments express the peaceful world economic relations among countries, which are based on the complete equality of rights on (all) sides and which exclude, in view of the very nature of the socialist system of economy the tendency toward the exploitation and subjugation of other countries. It is in the USSR's balances of payments, after the Second World War, that the progressively developing diverse forms of economic cooperation of the USSR with countries of the socialist camp find their expression. This cooperation is a new type of international economic relations unknown to the capitalist world, and is based on friendly mutual aid and the comradely coordination of economic plans. These plans also reflect the broad, disinterested aid rendered by the Soviet Union in the form of long-term credits to the economically underdeveloped countries, which have recently freed themselves from the colonial and semi-colonial oppression by the imperialist countries, which aspire to strengthen their own political and economic independence.

A categorical distinction between the content of the

USSR's balances of payments and those of the capitalist countries lies also in the fact the USSR's balances of payments are the balances of international accounts of a single economic organism in the person of the Soviet Socialist State which carries on foreign trade on the basis of a monopoly.

In opposition to this in the capitalist countries the balances of payments reflect the accounts of numerous private enterprises, societies, and persons who compete with one another and pursue only one goal--that of receiving the greatest profit.

## 2. The Planning of the USSR's International Accounts

The necessity for planning international accounts ensues from the basic conformities to the established laws of socialist economics, which is conducted according to a plan in accordance with the demands of the economic law of the even (proportional) development of the national economy. The planning of the balances of payments, or currency planning is a component of the overall system of the USSR's national economic planning. It is indissolubly linked with the planning of foreign trade and of other forms of the USSR's foreign economic ties. The planned conduct of foreign trade and of other aspects of economic cooperation with foreign countries is impossible without the planning of international currency relations ensuing from them. The monetary receipts and payments of the Soviet Union forthcoming in the planned period (year) in all aspects of its economic and non-economic relations with all other countries are the subject of currency planning. The currency plan is thus a plan of the future balance of payments or balance of perspective payments of the USSR.

The fundamental problem of currency planning consists of assuring a balance in payments of the USSR for the corresponding period and in providing means (in the form of monetary receipts and incomes from foreign trade and other economic and non-economic relations) for the payment of monetary obligations due during that period in trade, credit, and non-trade operations.

The system of planning the balance of payments pursued this goal in all stages of the USSR's economic development, but the forms and methods of currency planning were changed depending on the concrete conditions of the USSR's international trade and currency relations during various periods.

Here we are not concerned with the history of currency planning but it may be remarked that the compilation of currency plans for specific purposes represent, during the present stage, a more complex and responsible problem than it was before the Second World War.

In connection with the formation of a world system of

socialism after the end of the war, the planning of the USSR's international accounts is made on a separate basis in foreign trade, and in other forms of economic and non-economic ties --on the one hand with the countries of the socialist camp, and on the other with the capitalist countries.

In view of a radical distinction of the production relations and the resulting economic factors in the socialist economy, the equilibrating of USSR's balance of payments with other countries proceeds in a different manner.

Despite the well-known community in the technical methods of planning of the USSR's balance of payments with socialist and capitalist countries, the economic character and content of such planning is different. This is explained by the fact that the economic relations as well as the monetary receipts and payments among countries with different social order ensuing from these relations constitute the subject of the planning.

The content of the balances of perspective payments (currency plans) of the USSR with individual socialist countries as well as of those countries with the Soviet Union is principally a consequence of plans for the exchange of goods coordinated among the parties, and associated with the national economic plans. In connection with this and owing to the realization of foreign trade in the USSR and in other socialist countries by the state, as the sole economic organism, the equilibrium of the USSR's balances of perspective payments with socialist countries rests upon a firmer basis than the equilibrium of these balances with the capitalist countries.

In compiling the balances of perspective payments with capitalist countries one must take into account the influence of the chaotic factors of the capitalist world market on foreign trade and on the international accounts connected with the latter. The fulfillment of the planned balances of payments with these countries to a great extent depends on the economic activity of numerous private capitalist firms and enterprises which are subject to the influence of a changing conjuncture of the world capitalist economy; an exact predetermination of which is impossible.

In connection with this, the maintenance of the equilibrium in the USSR's balances of payments with the capitalist countries may cause a necessity of utilizing currency reserves.

In order to equilibrate the balance of payments with countries of the world socialist system there is no need for this. Disproportions revealed in the course of the currency plan with these countries may be removed by means of a friendly coordination of the goods exchanged to the extent necessary for the re-establishment of the violated equilibrium of the balance of payments.

In planning the USSR's international currency relations with the capitalist countries it is necessary to differentiate between the equilibrating the balance of payments with countries with whom accounts are conducted in convertible and limited currencies and may be regarded as multi-lateral accounts, and with countries with whom accounts are conducted on a bi-lateral basis, through clearing with an inconvertible balance or in the closed currency of those countries.

In connection with this, the USSR's monetary receipts and payments in capitalist countries are planned separately: in the freely and partially convertible currencies by clearing agreements with the freely convertible balances, and by clearing agreements with the non-convertible balances in the closed currencies of those countries.

The monetary receipts and payments which make up the USSR's balance of payments may be subdivided, according to their nature, into receipts and payments resulting from operations in foreign trade and of other forms of USSR's economic relations with foreign states and into receipts and payments of a non-trade nature. The first category of monetary receipts and payments forms the predominant part of the USSR's balance of payments.

The balance of payment plans (currency plans) are set up on the basis of data presented by individual departments and organizations which spend and receive currency in their operations. In foreign trade and in the other aspects of economic cooperation with foreign countries these plans are based upon data from foreign trade.

The USSR's Ministry of Finance plans the receipts and payments involved in the governmental income and expenditures abroad for certain non-trade operations and in the granting of financial credit to other countries and the payment of interest by those countries. The State Bank USSR and Foreign Trade Bank USSR provide in their plans for the receipts and payments of interest and commissions involved in their own operations, as well as for the receipt of foreign currency in exchange for rubles; and for non-commercial consumer monetary transfers.

The import-export plans, as well as agreements concluded with individual countries regarding the exchange of goods and payments, credit agreements, etc., constitute the basis for the composition of plans for the balance of payments in foreign trade.

The plan for the balance of payments in foreign trade, being basically a derivative of the import and export plans is, like those plans, somewhat dependent on the national economic plan and is subordinate to it. The Soviet Union's import needs are established in the USSR's national economic plan, which also provides for the allocation of goods for

export, the proceeds from the sale of which pay for the imports. Besides this, exported goods are also allotted for the rendering of friendly economic aid in the form of credit to socialist and non-socialist countries.

In connection with this, the planning of the balance of payments is indissolubly linked not only with the planning of foreign trade, but also with the planning of the national economy on a scale embracing the entire country.

Inasmuch as the currency plan represents the perspective balance of payments one must, in the methodology of currency planning proceed from the (see above #1) concept of the balance of payments indicated above in the scientific sense of the word.

In connection with this, in the composition of the currency plan the following basic conditions should be observed:

a. Only monetary receipts and payments should be stipulated in the currency plan; therefore, the granting of credits in the form of goods, gifts, reparations in their natural form, and barter transactions should not be included in the currency plan;

b. Monetary receipts and payments should be planned irregardless of whether they are made in foreign or Soviet currency; all of the USSR's accounts with countries of the socialist camp conducted in rubles should in particular be reflected in the currency plan;

c. Only monetary receipts and payments in accounts with the external world in relation to Soviet Union should be stipulated in the currency plan; payments in accounts among Soviet economic organizations, even if they concern foreign trade operations, should not be stipulated in the currency plans.

In order to give the reader some idea of the technique of currency planning, a table of the currency plan in foreign trade is given in an abridged form below.

#### A Table of the Currency Plan in Trade

Receipts	Payments
1. From the sale of goods	1. For the purchase of goods
2. From transportation operations	2. For transportation operations
3. For technical aid	3. For technical aid
4. From payment of credits	4. Overhead and trade expenses, among them the maintenance of foreign apparatus
5. <u>Other receipts</u>	5. <u>Other payments</u>
Total	Total
Remainder (+) or (-)	

Ad indicated above, the plan for receipts from the sale of goods and the plan for payments for the purchase of goods are based on the import-export plan for the corresponding year.

The monetary receipts and payments in foreign trade do not coincide, however, with the amounts of import and export good in relation to time, i.e., to the time of receipt and expenditure of currency.

In order to correctly plan monetary receipts from the sale of goods, it is necessary first of all to exclude from the amount of export the value of those goods which will be exported and delivered in the planned year as credits in the form of goods to other countries, since no monetary equivalent for these goods will be received in the planned year. Furthermore, inasmuch as part of the exported goods is sold at "C.I.F." (Cost, Freight, Insurance) price, i.e., with the inclusion of transportation and insurance expenses for these goods while the export plan is compiled on the basis of "F.O.B." (Free on Board) prices, i.e., without excluding the indicated expenses, it is therefore necessary, in order to determine receipts from the sale of goods, to add to the total of the export plan the difference between the prices "C.I.F." and "F.O.B." of goods marked for sale at the "C.I.F." prices.

Receipts from sales occurring prior to the current year, should also be considered if adherence to the strict methodology for compilation of currency plans is present.

However, in view of the insignificance in the difference between these receipts on the annual scale, they are, in practice, disregarded in the plan.

In the article "Receipts from the Payments on Credits" a stipulation is made for the sums which are subject to payment in the given year by the countries of the Socialist camp, and other countries on credits received by them from the USSR, whenever their liquidation is effected in monetary form.

In planning payments for the purchase of goods, the import plan for the corresponding year is taken as the basis. The purchase of imported goods is planned according to "F.O.B." (Free on board) prices by which the import plan is compiled. However, the amount of payments for the purchase of goods usually does not coincide with the amount of import for the same year, as a result of the fact that in the planned year payments may be due for goods which were imported into the USSR according to the import plan for the preceding year or years.

On the other hand, in the planned year it is necessary to provide for payments for goods (deposits to the suppliers of equipment) which will be delivered to the USSR in the following year or even at a later time and will be reflected in the import plans of the corresponding years.

Currency plans are compiled in rubles. The receipts and payments in foreign currencies are converted into rubles according to the existing currency exchange rate. The sums of debit and credit are shown in the currency plan, as indicated above, with a breakdown by currencies and countries.

The advantages of the socialist economy, a state monopoly of foreign trade, permit the Soviet state to influence directly the extent and character of the import and export of goods as well as other forms of economic relations connected with monetary receipts and payments. In consequence of this, the USSR's balance of payment can be brought into equilibrium by means of conscious direction of the corresponding foreign trade operations.

The equilibration of the USSR's balance of payments proceeds in different ways depending on the circumstances of currency relations with the individual countries and groups of countries.

In relation to monetary receipts and payments in freely or partly convertible currencies, as well as in countries, with whom accounts are conducted in these currencies, the following ways of equilibrating the USSR's balance of payments are possible.

If, in the plan for a given period, the monetary receipts due are insufficient to pay for anticipated expenditures, then the equilibrium of the balance of payments may be attained in one of three ways: by increasing the sale of Soviet goods on foreign markets, by reducing purchases of foreign goods, or by utilizing currency reserves for the settlement of the deficit.

If the amount of monetary receipts outlined by the plan exceeds the payments forthcoming during the corresponding period of time, then the balance of payments may be equilibrated by increasing purchases abroad of such goods as are necessary to the USSR, by reducing the sale of Soviet export goods, and by utilizing the surplus of payments in order to increase the currency reserves. In practice this equilibration of the balance of payments is accomplished for the most part by means of corresponding changes in the planned amounts of exported and imported goods. The question of utilization of gold for the purposes of bringing the balance of payments into equilibrium is decided by the government when it ratifies the currency plan.

The equilibration of the balance of payments in the restricted and in the clearing exchanges has its own specific peculiarities.

Whereas proceeds received in convertible currency may be converted into any other currency and utilized directly or by means of exchange into this currency for payments in any country, receipts in restricted, inconvertible currencies may be utilized, and not always, only for the payment

of goods and other expenses in the country of this currency. Those amounts, however, which enter the clearing accounts in the corresponding clearing currencies may be utilized for payments only in those operations for which the given agreement on the exchange of goods and payments stipulates a clearing method of accounting. In the majority of cases, these are payments for goods and expenses associated with the exchange of goods.

The planning and regulation of the balance of payments in the USSR's foreign trade should, therefore, be conducted differently for the various types of foreign exchange, and for individual countries with restricted and clearing currencies.

Regulation of the USSR's international accounts is not limited to the composition of plans on the balance payments only. It is accomplished daily in the course of their fulfillment. The constant control over the course of the fulfillment of the plan of the balance of payments and the corresponding regulation of international accounts are necessary, partly, because the USSR's foreign trade relations take place in part with countries of the capitalist system of economy, which are subject to crises of overproduction, cyclic and other fluctuations of prices and conjuncture.

The plans for the balance of payments or the currency plans are, just as all other plans of a socialist economy, obligated for fulfillment by directives. A situation, where the state plan is a law for the appropriate ministries, organizations and socialist enterprises which bear the responsibility for the given portion of government and economic work, is also completely applicable (with a calculation of the specific exchange planning) to the plans for the USSR's balance of payments.

It is necessary, however, to stress that the directive character of the Soviet currency plans does not signify their absolute immutability. Depending on the state of conjuncture in the capitalist world markets and the changing trade-political conditions, the currency plan not only may, but should be changed in the course of the planned period whenever that is in the interests of the USSR.

Owing to the directive character of the currency plans, the equilibrium of the USSR's payments is assured; and in connection with this, also, the possibility for a rational utilization of the international division of labor for the development of the economy of the USSR and of the entire socialist system.

The system of planning the balance of payments and the regulation of international accounts, as used in the USSR, is impossible in the capitalist countries. The socialist system of economy as well as the indissolubly



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associated with its state monopoly of foreign trade (including its component--the currency of monopoly) constitute the necessary basic condition for this system of planning the balance of payments.

Under conditions of capitalism, the planning of the balance of payments is impossible, no matter what the extent of the government's control is over foreign trade and international accounts.

Individual capitalist countries attempt to establish "plans" for their future balance of payments. Such attempts became particularly more frequent in connection with the strengthening of the state-monopoly type of capitalism and a wide expansion of currency restrictions during and after the Second World War.

All these "plans" actually are not plans in the scientific concept of the word. They are only an attempt to make a guess at the future chaotic development of the capitalist economy, an attempt that is doomed to failure under the conditions of capitalism.

### 3. The Significance of Gold in the USSR's International Currency Relations

Significance of Gold. In the international currency relations of the USSR, gold fulfills functions which are inherent to precious metals as a world money.

As K. Marx indicates goods when in world circulation develop their exchange values in a universal way. Therefore, the form of this value, converted into gold, acts as a world money. ([Note] See K. Marx, Das Kapital, Vol I, 1949, page 149).

Gold in world circulation serves not as a means for conversion, but as a universal means of exchange; and appears in its primary form in the shape of ingots, and not in that of national money (coins, tokens of value).

According to K. Marx's teaching, gold appears in the function of world money as: 1) a universal means of payments, 2) a universal means for purchasing and 3) an absolute social materialization of wealth. The function as a means of payment for the balancing of international accounts, is the predominant function of world money in the capitalist economy. Gold serves as the international purchasing means primarily for countries producing gold. It is for them an independent product and article of merchandise, and is not a converted form of goods. ([Note] see K. Marx "Concerning the Criticism of Political Economy", 1949, p. 150). Besides this, gold appears in the function of an international purchasing means, as distinct from internal circulation, then, only when an exchange of materials is unilateral; and, therefore, the purchases and sales disintegrate. As an example of the rapid destruction of the

usual equilibrium in the exchange of materials between two nations K. Marx cites the failure of crops forcing one of these two nations to make purchases in an excessively large quantity. ([Note] Ibid).

As an absolute social materialization of wealth, gold appears wherever "the issue is not that of buying or payment, but of the transferring of wealth from one country to another and when such a transfer in the form of goods is impossible, either owing to unfavorable conjunctures of the goods market, or owing to the fact that the goal for the transfer of wealth in a given case itself demands monetary forms." ([Note] K. Marx, Das Kapital, Vol I, 1949, p. 151).

The significance of gold in the USSR's international exchange relations is stipulated by the fact that the external economic ties of the USSR, calling for international accounts, are realized not only with the socialist countries, but also with countries with the capitalist system of economy, for which gold is a world money.

In the article "On the Significance of Gold Now and After the Complete Victory of Socialism" written in 1921, V.I. Lenin clearly emphasized the significance of gold for socialist construction under the conditions of a capitalist encirclement.

V.I. Lenin pointed out the following: "When we shall win on a world scale, it seems to me, we shall make public toilets out of gold on the streets of some of the world's largest cities. This would be the most just and graphically edifying use for gold for the sake of those generations which have not forgotten that because of gold 10 million men were killed and 30 million were crippled in that 'Great War of Freedom' of 1914 to 1918 . . . .

"But however 'just', however useful, however humane the indicated use for gold may be, we will still say: We must yet work for another decade or two with the same intensity and the same success, with which we worked in the years 1917 to 1921, only in a much wider area, in order to achieve this. Meanwhile, one must save gold in the RSFRS, to sell it at a higher price, and to buy goods cheaper with it." ([Note] See V.I. Lenin, Collected Works, Vol 33, p. 89-90)

In this article V.I. Lenin had in mind, mainly, the significance of gold as a world money, and as an international means for purchasing and payment.

The economic content of the functions of gold as a world money, undergoes in the socialist economy of the USSR certain changes.

As was shown above, the flow of gold is considered under capitalism as the final means for the equilibration of balances of payments. An excess of the export (sale) of gold over the import (purchase) is regarded as an index of the passivity of the balance of payments whereas an excess of the import over the export--as an index of its activity.

In such an absolute formulation, these conditions cannot be applied not only to the socialist economy, but also to many capitalist countries.

For countries producing gold, the latter is the same kind of export item, as all other products of internal production exported abroad. If one considers every export of gold as an indication of the passivity of the balance of payments, then the gold producing countries such as the Union of South Africa, Canada, and others, forced to seel the major part of the gold extracted by them as an export merchandise, would be condemned to a constant passivity in their balance of payments. On the other hand, the international flow of gold stimulated by a demand for it from industry in the broad sense of the word, or by a demand for the purposes of conversion, likewise bears no relation to the equilibration of the balance of payments, and cannot, therefore, serve as an index of activity or passivity. Only those transfers of gold in which the latter appears in the function of a universal means of payment constitute such indices. The function of world money as a universal means of payment, serving to equilibrate the international balances, is manifested under capitalism as the flow of gold stimulated by the changes in the currency exchange rates. In the freely convertible currency, gold is imported or exported when the currency exchange rate goes beyond the limits of the gold export or import point. The mechanism of bringing the balance of payments into equilibrium with the help of the flow of gold as the universal means of payment is described by K. Marx in the third volume of Das Kapital in the chapter on the flow of gold and the rate of exchange. "But, on the other hand, gold and silver," K. Marx points out "are constantly being shifted her and there among the spheres of circulation of various nations following in its movements the continuously fluctuating rate of exchange." ([Note] K. Marx, Das Kapital, Vol I, 1949, p. 152). As the currency rate of exchange is determined by the state of the balance of payments, the rate of exchange is, as is well known, the barometer of the international movement of monetary metal. ([Note] K. Marx, Das Kapital, Vol III, 1949, p 588).

In the absence of free convertibility of currency, the State currency organs or the Central banks export gold when the balance of payments, forming under the influence of chaotic factors, cannot be brought into equilibrium by other means and the national currency is threatened with a drop in its rate of exchange on foreign currency markets.

In the socialist economy of the USSR the indicated, chaotically acting mechanics of the flow of gold, as a universal means of payment, cannot function in view of the planned development of socialist economy.

The USSR's payments are balanced deliberately in conformity with the currency plans. Any export of gold, regardless of the function in which the gold appears, is provided for beforehand in the plans for the balance of payments (in the currency plans). At the same time the currency rate of exchange of Soviet money does not depend, as in capitalism, on the state of the balance of payments and the elements of the exchange market, because the necessary premises for its existence are absent in the USSR.

The USSR represents one of the leading gold mining countries of the world. Although gold is not the basic export of the USSR, as it is for the Union of South Africa, the Soviet Union may in certain situations sell a part of the extracted gold abroad, as goods, i.e., it can utilize it as an international purchase means.

Therefore, the export of gold by the Soviet Union cannot be considered as an index of the passivity of its balance of payments.

One may cite a number of examples from the history of the USSR's international currency relations which illustrate the utilization of gold by the Soviet state as a means of international purchasing in the sense in which K. Marx employs this term.

Thus, in the first years of the existence of the Soviet state, owing to the economic blockade, and the impossibility of quickly developing its export, gold was utilized as almost the only means of buying from abroad the goods necessary for the Soviet State. As a means of international purchasing, gold was also utilized by the Soviet state in 1921, when, owing to the failure of crops and famine in the Volga provinces, there arose an urgent need for the purchase of bread in large quantities abroad.

After the extraction of gold in the USSR began to increase as a result of the re-establishment and reconstruction of the gold industry, part of the gold now being produced again in the USSR was utilized for sale on the foreign market.

After the Second World War the USSR is using gold in certain situations also in the function of world money, which K. Marx called the absolute social materialization of wealth in general. The granting of currency loans in gold to Poland and Czechoslovakia is an example of such a use of gold.

Just as the export of gold is not an indication of the passivity of the balance of payments, exactly in the same manner, it would be incorrect to regard the import of gold into the USSR (its purchase abroad) as the sole index of the activity of the USSR's balance of payments. For the Soviet Union, which even before the Second World War became one of the large gold-producing countries, the

internal extraction of gold, and not its purchase abroad, is the basic source for the increase of the gold supply. This, of course, does not exclude the fact that gold may under existing conditions be brought into the USSR from other countries in settlement of trade and credit obligations.

The activity of the USSR's balance of payments is expressed in the excess of monetary receipts from abroad, whereas the passivity--in the excess of monetary payments over monetary receipts from abroad.

Since the equilibration of the USSR's balances of payments proceeds deliberately, according to a plan, and not chaotically, it is the planned increase or decrease of the foreign currency reserves which constitute the final means for bringing payments into balance. Therefore, from the point of view of the equilibration of the balances of payments of the USSR, it is not the import or export of gold which constitutes the index of their activity or passivity, but rather changes in the foreign currency reserves.

Currency Reserves. The currency reserves are one of the forms of economic reserves of the Soviet Union, which the socialist economy cannot dispense with, being based on a planned national economy.

Currency reserves represent the supply of the means for international payments, and consists basically of gold and foreign currency.

The necessity of currency reserves for the Soviet Union is stipulated by the fact that there are two systems of economy in existence--the socialist and the capitalist --and by the economic ties between them, with the consequent international currency relations resulting from them.

The sources of the currency reserves and their significance were different in the various periods of growth of the national economy of the Soviet state.

In the first years of Soviet power and during the transition period from capitalism to socialism, the accumulation of currency reserves was a pressing necessity. The gold supply that the Soviet state acquired from pre-revolutionary Russia was negligible. Most of it had to be spent on the purchase of the most essential goods in the very first years after the October revolution, in order to liquidate the economic collapse and to buy bread for the starving population of the Volga provinces. In order to re-establish the severely damaged gold industry, the import of equipment from abroad was required.

At the same time the capitalist countries were conducting a credit blockade against the first socialist state in the world, refusing it loans and long-term credits and threatening a new economic blockade. Under these conditions the accumulation of currency reserves was of the highest importance for securing of the economic independence

of the USSR and for strengthening the new Soviet currency<sup>7</sup> the chervonets.

During the years of the transition period the Communist Part accorded paramount importance to the accumulation of currency reserves in the Soviet economy.

Its great founder, V.I. Lenin had already in 1921, at the very beginning of the restoration period of the USSR's national economy, pointed out the necessity for saving gold, which was at that time practically the only form of Soviet currency reserves.

The sources for the accumulation of currency reserves for the USSR, during those years, were in addition to the activity of its balance of payments, an increase in the mining of gold within the country and the mobilization of all nationally available pecuniary valuables.

Since in the period of the Party's struggle for the restoration of the national economy, and in the first years of the struggle for the socialist industrialization of the country the extraction of gold could not immediately be significantly increased, the essential significance in the matter of accumulation of currency reserves was such a direction of foreign trade that would allow the balance of trade and payments to yield an active balance.

In connection with this, the government and Party directives regarding the accumulation of currency reserves paid particular attention during this period to the problem of achieving an activity of the balance of payments and trade.

The directions on the activity of the balance of trade were given by the Thirteenth Conference of the Russian Communist Party (Bolsheviks) (Rossiyskaya Kommunisticheskaya Partiya), the Thirteenth Congress of the Russian Communist Party (Bolsheviks), the Fourteenth Congress of the All-Union Communist Party (Bolsheviks) (Vsesoyuznaya Kommunisticheskaya Partiya.), the Fifteenth Conference of the All-Union Communist Party (Bolsheviks), and the Fifteenth Congress of the All-Union Communist Party (Bolsheviks).

The decision of the Fifteenth Party Congress also indicated goals the attainment of which necessitated the accumulation of reserves (raw, goods, and currency) "the absolutely necessary insurance, protecting the USSR against major fluctuations of the conjunctures of the international market, the possibilities of an economic and a credit-finance, partial or total, blockade, a crop failure within the country, as well as a direct armed attack on the Union of Proletarian Republics." [See note].

([Note:] KPSS v rezolyutsiyakh s"yezdov, konferentsiy i plenymov. TsK (The Communist Party of the Soviet Union in the Resolutions of Congresses, Conferences, and Plenums of the Central Committee), Part II, page 457. State Publishing House of Political Literature, 1954.)

Now that the economic and political power of the Soviet Union has developed on a gigantic scale, and it ceased to be the only socialist state, and socialism has expanded beyond the framework of a single country, and a world socialist system, maintaining superiority in the world economic competition with capitalism has been formed, the meaning and functions of the currency reserves have changed. However, in spite of this, and of the fact that the technical-economic independence of the socialist economy in relation to the capitalist world has been attained, the currency reserves continue, even at the present time, to play an important role in the Soviet economy.

Currency reserves also have important significance for a freer maneuvering in foreign trade, particularly in order to utilize better the conjuncture of the capitalist world market.

When there is a conjuncture in the capitalist markets unfavorable to the USSR, (a drop in prices of Soviet export goods or an introduction of a restriction on their import into capitalist countries), it may prove to be, under certain conditions, more advantageous to liquidate its debt on credits given to it by individual capitalist countries, by currency gained from the sale of gold but not from the sale of goods. For this purpose accumulated gold reserves may be utilized. In exactly the same way it may be, under these situations, advantageous to the USSR to utilize the accumulated foreign currency or gold for the purchase of goods instead of the sale of export goods.

The currency reserves are also necessary for the maintenance of the USSR's daily balance of payments with the capitalist countries. Short-term disparities between the amounts of debit and credit are not excluded from the balance of payments of the USSR. They may occur not only in consequence of the inevitable asynchronism in the terms of currency receipts and payments, but also as a result of the influence of seasonal factors and fluctuations of the capitalist conjuncture, which are, in foreign trade plans, impossible to foresee with complete accuracy, in the foreign trade plans.

The currency reserves have in the USSR an even more general meaning in connection with the problems of planning the national economy. Just as the other forms of reserves of the socialist economy, they may be utilized for the purposes of overcoming the disproportions revealed in the course of fulfillment of national economic plans, by means of purchase abroad of products lacking at the given time.

In the past currency reserves were utilized sometimes in those cases, where the need for an urgent purchase of certain goods abroad arose, for the purchase of which the export resources could not be mobilized on short notice.

Under conditions of war and of economic blockades, as a result of the blockading of the USSR's currency resources in foreign bank accounts and as a result of other hostile currency measures by the capitalist countries the utilization of the currency reserves may be made difficult.

Currency reserves were utilized after the Second World War as a means for friendly economic aid to individual countries of the Socialist camp. As indicated above, the USSR granted loans of gold and currency to Poland, Czechoslovakia, Hungary, and other countries from its own currency reserves.

The significance of currency reserves (gold and foreign currency) is not the same at different times. It varies depending on the changing international economic and political situation and the extent of trade of the USSR and other Socialist countries with capitalist countries, especially with the industrially developed countries.

The significance of gold and foreign currency as currency reserves depends on the degree that they may be utilized under given conditions as means for international payments, for the payment for goods, for the liquidation of credit obligations, and for other expenses.

Gold is the world money of the capitalist economy; therefore, as a rule, not one capitalist country refuses to purchase gold with its own currency. The question lies only in the price at which the capitalist countries agree to accept the gold.

The official price of gold in the USA, established as early as the 30th of January, 1934 at 35 dollars per ounce of pure gold, has been the price of gold since the Second World War. Despite the fact that the price of goods expressed in dollars has increased in the world market since that time, by 2.5 to 3 times, the government of the USA preserves the indicated price of gold at an unchanged level. The unrealistically low price of gold in American dollars contradicts the interest of all gold-extracting countries. The Union of South Africa and other gold-extracting capitalist countries have repeatedly raised the question of increasing the world price of gold to the capitalist countries at the International Monetary Fund.

This would help a number of capitalist countries who do not possess large gold and currency reserves to solve their currency difficulties. However, the government of the USA, the principal world buyer of gold, has up to now always objected to an increase of the price of gold. ([Note] Conversation of Comrade A.I. Mikoyan with French correspondents, Vneshnyaya torgovlya (Foreign Trade), No 8, 1958, page 6.)

As Comrade Mikoyan pointed out in his conversation with the French, the normalization of the prices of gold is also of interest to the Soviet Union. ([Note] Ibid).



In order to be able to utilize gold in international accounts for the equilibration of the balance of payments or for the purchase of goods on the world capitalist market, it is necessary to sell it in advance for the foreign currency necessary for these payments.

In speaking of the difficulties of utilizing gold, one might recall the boycott of Soviet gold in the first years of the existence of the Soviet state, in the form of the so-called gold blockade, which was being conducted by the large banks, by the government of the USA and by governments of a number of other capitalist countries.

Currency reserves of foreign currencies should mainly consist of a definite supply of convertible currencies, since only such currencies may be converted into other foreign currencies and utilized for payment in any country. However, it is necessary to maintain small reserves even in restricted, inconvertible currencies of individual countries, in order to provide for the current payments in these countries.

Under the conditions of currency instability in the capitalist world the reserves in foreign currency are not guaranteed from depreciation as a result of a devaluation or other drop in the currency exchange rate. A gold clause can be the only guarantee against the depreciation of the currency. Currency reserves are also threatened with a freezing of bank accounts in cases of introduction of currency restrictions or the seizure of these accounts in war or because of other considerations. During the Second World War the United States Government froze certain sums on accounts in American banks belonging to citizens and enterprises not only of enemy states, but even of neutral countries.

During the course of the war in the People's Democratic Republic of Korea (KNDK -- Koreyskaya Narodno-Demokraticeskaya Respublika), which was being aided by Chinese war volunteers, the United States government impounded all of the People's Democratic Republic of Korea's resources in American banks. After the nationalization of the Suez Canal by the Egyptian government, the governments of England, France, and the United States froze Egypt's monetary resources existing in the accounts of banks of these countries. ([Note] Later Egypt negotiated agreements for the release of these sums with those countries.)

The keeping of sums in a foreign currency in the accounts of foreign banks, as well as of foreign monetary tokens in accounts of the State Bank USSR, signifies the granting of credit to a country, whose currency is utilized as a currency reserve. In the majority of cases this credit bears no interest, since the large capitalist central and commercial banks do not pay interest on current accounts.

The amount of reserves in foreign currency should in connection with this be limited to a certain minimum, the current payment by the USSR of all foreign trade, credit and other financial obligations, and, in addition, providing a possibility for unlimited maneuverability in foreign trade for the purpose of utilizing, to the best degree possible, the changing conjuncture of the capitalist commodity markets.

The perspective balance of payments with capitalist countries in freely and partly convertible currencies should, therefore, be planned not only as being in balance, but also showing a certain preponderance of receipts in convertible foreign currencies over payments. The planning for a certain increase of currency reserves in the convertible currency is necessary in light of the fact that with the increases in USSR's production from year to year, turnovers in foreign trade with the capitalist countries will increase as well. The more extensive the turnovers the higher should be, all other things being equal, the amount of foreign currency reserves, in order to assure current payments and a better maneuverability in foreign trade. The principal part of the USSR's currency reserves consists of gold which is kept within the country. The extraction of gold within the country is, in the USSR, the source of the formation of the gold portion of its currency reserves.

#### 4. Currency Accountability and Compilation of Accounts for Payment and Account Balances of the USSR

The USSR's balances of payments are distinguished from the balances of payments of the capitalist countries not only by their content and means of balancing, but also by methods of compilation. The latter distinction concerns the balances of payments for (past terms), i.e., the account balances. The concept of balance of payments accounts under the conditions of socialist economy basically coincides with the concept of currency accountability, i.e., accounts of the receipts and payments in foreign trade and other forms of economic and other relations with foreign governments, i.e., accounting of the fulfillment of currency plans.

Currency accounting, in the broad sense of the word, encompasses all forms of accounting and accounts in the field of the USSR's international accounts. In the narrower sense of the word--these are accounts of currency receipts and payments, received and made by foreign trade unions and all other economic organizations, and institutions of the USSR for specific fiscal periods. They perform an important role in the planning and regulation of the USSR's international accounts.

The currency accounts, as all other accounts on the

fulfillment of plans in the Soviet economy, perform first of all the function of checking the fulfillment of the plan and of its correction. Such control is necessary for determining the success of the work of all organizations, individual links of the apparatus and workers called upon to direct the plan's fulfillment and to put it into practice.

Currency accounts show which parts and divisions of the plan were not fulfilled or overfulfilled, and reveals individual errors made in the planning. At the same time this currency account as other forms of currency accounting and accounts, appears as the necessary initial material for the compilation of future plans of the balance of payments of the USSR and to regulate them in the process of fulfillment.

The accounting of demands and obligations on concluded foreign trade transactions and credit agreements is in this respect especially important, but equally important is the accounting of terms of payment for these obligations.

The basis of currency accountability in foreign trade is the bookkeeping and operative accounting of the transactions causing the receipt and expenditure of currency means. Such an account is conducted by each individual foreign trade union and by all organizations servicing foreign trade.

In non-trade operations the currency accounting is conducted by departments and organizations which have currency receipts and which have received the right to spend currency means. Part of the non-trade currency operations are conducted by the USSR's Ministry of Finance.

The accounting of the received and expended currency means is conducted with a subdivisions of receipts and expenses in the various types of operations, and by the different forms of currency as well as by the different countries. At the same time the Ministry of Finance conducts special accounting for the course of fulfillment of the supply of goods, stipulated in the agreements on exchange of commodities and payments concluded by the Soviet Union with the individual countries. The data of this account serves as the necessary material for verification of the fulfillment of the mutual goods exchange according to the deadlines stipulated in these agreements. The accounting and accounts on clearing accounts ensuing from mutual goods exchange are concentrated in the State Bank USSR, insofar as the latter has the corresponding or clearing accounts.

A special place is occupied by the accounting and accounts for the extension to other countries and the receipt from other countries of credits. This accounting is conducted not only at the Ministry of Foreign Trade but also, on a number of credits, at the State Bank and the USSR's Ministry of Finance.

Along with the currency accounting in foreign trade

compiled by the Ministry of Foreign Trade, and accounting in other operations as are realized by the USSR's Ministry of Finance, and other departments, parallel currency accounting and accounts are conducted on the entire aggregate of the Soviet Union's International accounts by the State Bank, which is the USSR's currency cashier. It is through the cash department and accounts of the State Bank in foreign banks, that in the main, pass all receipts and expenses of currency means in both trade and non-trade operations.

In reflecting the deposits and amounts drawn on them, the accounting and accounts of the State Bank cannot, however, give in a number of cases, an extended and detailed picture of the components in the debit and credit of the currency means out of which these amounts are in fact composed. This gap can be filled by such data of the bookkeeping and operative accounting data of foreign trade unions which give an opportunity to present a extended picture of the debit and credit of currency by the separate types of receipts and payments.

The currency accounting of the State Bank, being cash accounting, gives control figures for verification of the accuracy of the currency accounts of all the other organizations and establishments of the USSR which spend and receive currency means.

The state Bank's daily account of currency operations, conducted according to each individual country and currency, gives an opportunity to follow currency receipts and payments in foreign trade and non-trade operations. In this respect it has an important significance in the daily regulation of the USSR's international accounts.

The compound currency account of the State Bank is in essence the USSR's balance of payments for a corresponding period of time, compiled in summary form without detailed breakdown of debit and credit articles.

The data of bookkeeping and operative accounting of foreign trade and other forms of economic relations with the outside world, along with data of currency accounting in non-trade articles and the State Bank's data concerning its own operations, give all the necessary material for the composition of the USSR's detailed and extended balances of payments.

Owing to the socialist system of economy, indissolubly associated with the monopoly of foreign trade, and its component -- currency monopoly, the Soviet Union has the opportunity to compile with a maximum possible degree of accuracy its account balance of payments, just as other balances, characterizing the USSR's international account relations. The problem of compiling account balances of payments is facilitated by the fact that an overwhelming part of the

international accounts of the country pass through a single currency accounting center--the State Bank of the USSR.

In the conditions of capitalist economy the organization of proper accounting of international accounts runs into a number of insurmountable difficulties, since the economic ties among the countries and the payments resulting from them are realized mainly by numerous private enterprises, firms, and banks.

In connection with this, capitalist statistics of the balance of payments are compelled, in the majority of cases, when it is a matter of payments or commercial and financial accounts received and effected by individual enterprises, to proceed from various indirect data and external indices of completed operations and their approximate appraisal.

Countries with currency restrictions, depending on the greater or lesser extent of these restrictions in the individual forms of international accounts and the degree of effectiveness of currency control, have the opportunity to compile on the basis of data of exchange organs more exact balances of payments than countries which do not employ currency restrictions. However, even in countries with the most rigid system of currency control, the statistics of the balance of payments are very far from corresponding to the demands of scientific methodology and suffer from a significant lack of accuracy. Supporting this is the fact that even in the statistics of balances of payments in countries with currency restrictions, the grand total of debit never coincides with the grand total of credit, and by rather large amounts. This unclarified difference will be found in the article especially created for the balancing of the balance of payments, called "Omissions and Errors."

The Soviet Union is freed from the necessity of resorting to the various artificial methods of compiling the account balances of payments employed by the statistics of the capitalist countries, which distorts the actual picture of international exchange relations.

The bookkeeping and operative accounts of foreign trade unions and other Soviet economic organizations and establishments which are obligated to render an account to the government of the currency means received and spent in their operations, are the source for the compilation of balances of payments in the USSR. In connection with this, in the USSR's account balances of payments the article "Omissions and Errors", is not present, and the total amount of credit is always balanced by the total amount of the debit. The USSR's balances of payments give an exact, and not a distorted, as in the case of capitalist countries, picture of the actual monetary receipts and payments for a corresponding period.

The compilation of the account balances of payments in the USSR pursues the practical problem of securing better planning and regulation of the international exchange relations of the Soviet Union.

Along with the compilation of the balances of payments as accounts of the fulfillment of the plan of the balance of payments, the USSR also has the opportunity of compiling account balances of payments in the form of collated statistical table which gives a picture of the Soviet Union's payment relations with all countries by the individual forms of economic and non-economic relations with them.

This was the characteristic of the USSR's balance of payments for the years 1935 and 1936 as published in the Soviet press and remitted for publication in the League of Nations' collection of balances of payments, cited below. (See Table I)

The texts of the USSR's balances of payments for 1935 and 1936 were compiled according to a form which is outwardly analogous to the scheme of the balance of payments worked out in 1928 and applied during existence of the League of Nations for the purposes of unification of the statistics of the balances of payments of various countries.

However, from the point of view of the methodology of composition, the published balances of payments of the USSR for 1935 and 1936 differed essentially from the balances of payments which are published by capitalist countries. The fundamental difference lay in the fact that they were genuine account balances of payments in the scientific sense of the word. For each individual item the actual amounts of the monetary balances of receipts and payments were given, and not figures of imports and exports based on data yielded by foreign trade statistics or approximate appraisals of debit and credit in other items, as is the case with the balances of payments of capitalist countries.

The division of the USSR's balances of payments for 1935 and 1936 in two parts, -- "Current Items" and "Movement of Credits and Property", graphically showed the sources for the major settlement of the foreign trade short-term credit debts for these years.

The Secretariat of the League of Nations published the USSR's balances of payments not in the form in which they appeared in the Soviet print and were presented to the Secretariat, but in the form of a continuous column of figures which made a visual survey difficult. The anti-Soviet circles in the League of Nations, evidently, had in mind to shade in this manner the fact that the Soviet Union had utilized the significant active balance in foreign trade

for the liquidation of its previous short-term credit debts to other countries and had again proved its economic power and ability to fulfill obligations taken upon itself punctually

The composition of the USSR's yearly collated account balances of payments, as well as of the account balances (the balances of international debt and demands) at the end of the accounting year is delegated to the USSR's Ministry of Finance.

The account balances of payments of the USSR are at the present time compiled in a different form from the one by which the balances of payments for 1935 and 1936 were composed.

In a somewhat abridged form the structures and contents of items of the USSR's account balances of payments is presented in the following form (See Table II).

Table I

The Balance of Payments for 1935 and 1936  
(in thousands of rubles)  
(in 1935, 1 ruble = 3.00 French francs; from  
27 October 1936, 1 ruble = 4.25 French Francs)

Debit	1935	1936
Current Items		
1. Receipt from the realization of export goods (F.O.B.) -----	1,800,363	1,497,542
2. Balance of incomes on sea freight	47,536	71,636
3. Balance of receipts from port fees and court fees -----	11,440	1,834
4. Balance of other transports and other expenses of the balance of services-----	11,581	15,893
5. Balance of receipts of insurance operations -----	5,733	1,695
6. Balance of receipts from non-commercial transfers	61,630	7,090
7. Balance of receipts from tourism and expenditures of foreigners--	29,324	33,133
8. Other receipts -----	164,959	32,375
9. Realization of gold abroad -----	52,239	-
Total of current items -----	2,184,804	1,663,198
Movement of Credits and Property Abroad		
1. Return (reparations of property, existing abroad -----		71,276
2. Balance of receipts of government loans -----	7,742	-

Table I, continued:

3. Receipts of financial credits ---	-	241,574
<hr/>		
Total of the Movements of Credits and Property-----	7,742	312,850
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The debit balance of the movement of credits and property -----	1,004,896	118,838
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Credit	1936	1935
<hr/>		
1. Cash payments of imports, in- cluding overhead expenses for tow-line (C.I.F.) -----	860,037	1,329,181
2. Expenses for technical assis- tance and assembling -----	23,472	25,439
3. Excess of state expenses abroad over state incomes -----	56,791	53,081
4. Interest on loans and credits (balance) -----	88,326	43,990
5. Other expenses -----	--	61,194
6. Purchase of gold -----	--	451
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Total of current items-----	1,029,126	1,512,336
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The credit balance of current items---	1,155,678	150,862
<hr/>		
Movements of Credits and Property Abroad		
1. Liquidation of state and con- cessionary loans -----	--	45,982
2. Liquidation of firms' trade credits -----	693,735	354,100
3. Reduction of obligations by short term export and bank credits-	318,903	31,606
<hr/>		
The total of the movement of credits and property -----	1,012,638	431,688
<hr/>		
The increase of currency cash of Soviet banks on accounts abroad-----	150,782	32,024



TABLE II  
TABLE OF THE USSR's BALANCE OF  
ACCOUNTS PAYMENTS FOR -----

Name of Items	Receipts	Payments	Balance + or -
I. Trade Operations			
1. Goods -----			
2. Gold -----			
3. Silver and other precious metals -----			
Total of Division I -----			
II. Services			
4. Transportation operations -----			
5. Insurance -----			
6. Post Telegraph Communication ---			
7. Overhead expenses foreign trade--			
8. Bank operations -----			
9. Technical and other forms of aid -			
10. Others -----			
Total of Division II -----			
III. State Debits and Credits			
11. The salary of representations and delegations -----			
12. Membership fees in international organizations -----			
13. Incomes from Soviet property abroad -----			
14. Others -----			
Total of Division III -----			
IV. Credits and Property			
15. Credits extended -----			
16. Credits received -----			
17. Interests on credits -----			
18. Capital investment, purchase and sale of property -----			
Total of Division IV -----			
Of All -----			
19. Change of remainders of means -----			
Balance -----			

The cited table as distinct from the USSR's balances of payments for 1935 and 1936 does not contain the subdivisions of the balance payments for the debit and credit items. Its individual components--divisions and items--may be in both debit and credit. Therefore, opposite each item there are three columns: Receipts, payments, and remainder+ or -. Since the balance can be positive as well as negative depending on which of the following predominates--receipts or payments, certain items of the balance of payments can be active (credit), other--passive (debit). The same thing holds true for entire divisions of this balance.

Such structure allows one to see graphically the role of the individual items and divisions of the balance of payments in its final balancing.

The methodology of the compilation of the account balances of payments is based on the scientific conception of it indicated above. In connection with this, included in them are only monetary receipts and payments for trade and other operations, but not movement of the goods themselves. Credits extended by the USSR to other countries in the form of goods, and the commodity-exchange operations do not enter into the balance of payments. In exactly the same way the settlement of credits, if it is effected not in monetary form (including any clearing operation), but in the form of goods, it is not accounted for in the balance of payments.

Along with this in the division "Trade Operations", as distinct from the statistics of the balances of payments of the capitalist countries, are shown not the amounts of export and import of goods, but the actual monetary receipts and payments received and spent for goods purchased and sold.

Under monetary receipts and payments items it is understood that transactions between the USSR and foreign governments are conducted in both foreign currency and in rubles which have become the currency of international accounts on the world socialist market.

The collated account balance of payments are compiled in rubles; in addition a breakdown is given of monetary receipts and payments according to countries and groups of countries (socialist and capitalist).

The content of the individual divisions and items of the balance of payments are the following.

The division "Trade Operations" reflects the payments on the import and receipts from the exported goods. These receipts do not include charges for freight, insurance, and other services, which have been included in the price of the goods, sold under "C.I.F." conditions. These amounts are shown under the corresponding items of division II "Services."

Item 2, Division I, "Trade Operations" shows the receipts from the sale of gold abroad, inasmuch as the latter

is for the USSR, a large gold-extracting country, one of its export goods.

Item 3 "Silver and Other Precious Metals" contains the receipts from the sale abroad of silver, platinum and other metals of the platinum group.

Under Division II, "Services", include the "Debit" of receipts, and the "Credit" includes payments for transportation, insurance, and other forms of operations and items.

"Transportation operations" (item 4) encompasses: receipts for the transport of foreign cargo in Soviet vessels, receipts from embarkation-debarkation labor and the accommodation of foreign vessels in Soviet ports, etc.; payments for the transport of Soviet cargoes in foreign vessels, and for the accommodations of Soviet vessels in foreign ports; receipts and payments for the transport of transit cargoes and other services of railroad transportation; receipts and payments for the transport by air, and also for the commercial and technical accommodation of airplanes at airports.

Item 5, "Insurance", reflects receipts and payments on insurance premiums and the payment of insurance indemnification for lost export and import cargoes.

Item 6, "Post-telegraph Communication", shows receipts from the administrative communications of foreign states and payments to these administrations for services and accomplished labor in the post-telegraph-telephone communication, vessel radio exchange etc., as well as receipts from diplomatic representatives and foreign correspondents in the USSR for the services rendered to them by electrical communication with countries abroad.

Item 7, "Overhead Expenses in Foreign Trade", reflects payments on transport and the storage of Soviet goods in foreign port, brokerage expenses, expenses of advertisement, analyses, as well as other payments for services, rendered to the USSR's foreign trade organizations abroad.

In Item 8, "Bank Operations" are shown: the interest received and paid abroad on correspondent and current accounts, urgent deposits and clearing accounts; commissions, received and paid on monetary transfers and letters of credit; and other expenses.

The same item reflects consumer monetary transfers as well as the purchases and sale of foreign monetary tokens, checks, etc.,

Item 9 "Technical and Other Forms of Aid", reflects the receipts and payments for technical and other aid rendered and received. Through this item pass the receipts for the tuition of foreign citizens in the USSR and the payments of currency for Soviet specialists commandeered for work in establishments and enterprises of foreign states.

Item 10 "Miscellaneous", reflects receipts and payments on tourism, as well as consular fees and other receipts and payments on services, not entered in the preceding items.

The item "The Maintenance of Representatives and Delegations", is the main item of division III of the balance of payments "State Incomes and Expenses." In this item are reflected the "Income": receipts from foreign states for the salary of their diplomatic and other representatives and delegations; and in the "Expense", the salary of trade and other representatives and delegations abroad, as well as expenses on temporary commandeering of Soviet workers abroad.

Item 12 of this division includes the amounts received and paid in the form of membership fees to international organizations.

Item 13 reflects the receipts from Soviet property abroad.

Item 14 "Miscellaneous" gives the receipts of duties, license and parcel fees and others.

Division IV "Credits and Property", reflects receipts and payments only on such foreign loans and credits, as were given or received by the USSR in monetary form.

Item 15 reflects receipts and expenses in credits and loans, extended by the USSR to foreign states, and Item 16 --receipts and payments on credits and loans, received by the Soviet Union from foreign states.

In item 16, reflects interest received and paid by the USSR on both categories of loans and credits.

The contents of item 18 "Capital Investment and the Purchase and Sales of Property" at the present time are the receipts from sales of Soviet enterprises and property abroad, under "Income", and the payments on the purchases of personal and real property by the Soviet establishments and organizations abroad under "Expense."

After the addition of amounts of receipts and payments in all division and items one achieves the total amount of income and expense of the balance of payments for the given year on the basis of which the general active or passive remainder of this balance may be deduced.

Since the balance of payments for past periods is always found in equilibrium its indicated final balance must signify a corresponding increase or decrease of the remainder of reserves in foreign currency. If the income has for a given year exceeded the expense, this would be manifested in the form of an increase in the remainder of the foreign currency means. If the expense has exceeded the income, this would be expressed in the form of a decrease in the indicated remainder. As a result of this, the balance item in the table of the account balance of payments is the corresponding change of the balance of foreign currency means, which

are understood to include cash in foreign currency in the form of ready cash and in accounts of the State Bank and Foreign Trade Bank. Since a change of the remainders in the currency means at the end of the year in comparison with the beginning of the year is the result of the international accounts on all operations for the account year, this item of balance of payments is, as was indicated above, a balancing one.

In view of the fact that the movement of credits in the form of goods, as well as the exchange of commodities and other operations are not reflected in the account balance of payments, along with the latter a separate balance of the movement of credits and property, applicable to the account balance of payments is compiled.

In connection with this it would be expedient to compile, along with the balances of payments, account balances for the fiscal year with a balance of movement of credits and property equilibrating them. They would show a connection and an interdependence between the movement of credits and property and the movement of these balances through the current items of these balances for a corresponding period.

It is also of essential significance, if one is to show a complete picture of the USSR's international credit relations, to compile balances of international debt and demands of the USSR or the account balances for a definite date (beginning or end of the calendar year).

As indicated above, the balance of payments shows only the correlation of the country's monetary receipts and payments, actually effected for the corresponding period of time in all forms of economic and other ties with foreign countries.

Therefore, one cannot, on the basis of the balance of payments, conceive what the general state of the country's monetary demands and obligations is with relation to the outside world.

In answer to this question may only be given by the balance of the international debt and demands. This balance can determine the correlation of all monetary demands and obligations of the country in relation to all other countries, regardless of the time of their occurrence, which are not liquidated by the moment the balance is compiled.

The balance of the international debt includes not only the purely credit demands and obligations, but all property abroad. The property of a given country existing in other countries in the form of houses, land, factories, plants, interest in enterprises, the possession of stocks and shares, and the like, are considered conditionally as monetary demands on these countries, and the property of other countries existing in the given country -- as monetary obligations with relation to these countries.

The balance of international debt and demands, or the account balance for a given date (the beginning of the year) can be subdivided, proceeding from the urgency of the monetary demands and obligations, into short-term and long-term items.

The structure and content of the items in the balance of the USSR's international debt and demands or the account balance for the beginning of the year is presented in a rather abridged form as follows:

TABLE III

Table of the USSR's Account Balance  
(Balance of international demands and obligations  
on 1 January\_\_\_\_\_)

Name of Items	Monetary Demands	Monetary Obligations	Balance + or -
I. Accounts of Trade Operations			
1. Open accounts -----			
2. Advances -----			
3. Unpaid collection accounts--			
4. Uninvoiced deliveries -----			
5. Others -----			
Total of Division I:			
II. Accounts of Non-Trade Operations			
6. Transportation Operations ---			
7. Post-Telegraph Communications-			
8. Insurance -----			
9. Others -----			
Total of Division II:			
III. Remainders of Means in Banks			
10. Correspondent accounts -----			
11. Current accounts and deposits in foreign currency -----			
12. Clearing accounts -----			
13. Other accounts -----			
14. Foreign currency cash in cash department -----			
Total of Division III:			
IV. Credits and Property			
15. Credits and loans -----			
16. Interest on credits and loans-			
17. Enterprises and interest in companies -----			
18. Property of representations and organizations -----			
19. State obligations -----			

Table III, continued:

Total of Division IV:

Of All -----
Not included in the balance
1. Unutilized credits and loans ----
2. Letters of credit -----
3. Unregulated accounts -----

If one is to examine the table of the account balance from the point of view of the urgency of the monetary demands and obligations one may refer its three divisions, i.e., accounts on trade operations, those on non-trade operations, and the remainder of the means in banks, may be mainly attributed to short-term items, whereas the fourth division--the credits and property--mainly to long-term items.

In conformance to the cited table, the balances of the USSR's international debt and demands, or the account balance for the beginning of the year is composed in an extended form. Each item and division gives individually the sums due the USSR, the sum of the USSR's indebtedness and the resulting active or passive balance for the corresponding item and division. This affords an opportunity to watch in which types of accounts and credit relations the USSR is a creditor or a debtor.

Accounts on trade and non-trade operations are in the main the unregulated short-term monetary demands and obligations transitory from one year to another.

The remainders of means in the banks in the form of cash on correspondent and on current accounts, and on deposits in foreign currency, as well as in the form of foreign currency in the State Bank and Foreign Trade Bank of the USSR, constitute the foreign currency portion of the USSR's currency reserves.

Division IV "Credits and Property" characterizes the international credit relations of the USSR. In the item "Credits and Loans" under assets are shown demands on long-term and short term loans and credits, extended by the USSR to foreign states, both in the form of goods, and in gold and Soviet and foreign currency. Under liabilities it gives the debit of the Soviet Union on long-term and short-term loans and credits extended to the latter by foreign governments.

The comparison of the assets with the liabilities under the item "Loans and Credits" yields the basic material for judging whether the USSR is at the beginning of the corresponding year a debtor or credit country with respect to other countries.

The account balance is composed not only in a collated form, but also separately by socialist and capitalist countries,

as well as with each individual country.

As evident from what has been stated, the advantages of the socialist economy afford an opportunity not only to consciously plan the USSR's future balance of payments and to regulate them in the course of fulfilling them, but also to compile account balances of payments and accounts based on scientific methodology which plays an important role as one of the instruments in the planning of USSR's international currency and credit relations.



## CHAPTER X

### INTERNAL SETTLEMENTS OF ACCOUNTS AND CREDITING OF FOREIGN TRADE OPERATIONS IN THE STATE BANK USSR

#### 1. Credit Reform and Basic Principles of Organization of Settlements of Accounts and Crediting in the Soviet Economy.

All-Union foreign trade associations are links in the chain of the socialist economy. Like other socialist enterprises, they are ruled by a unified national economic plan. As far as settlements and credits within the USSR are concerned, they are subject to the general regulations concerning settlements and crediting procedure in force in the socialist economy, although allowance is made for the peculiar character of foreign trade.

The present procedures governing credits and settlements in the socialist enterprises are based on the Credit Reform Law [See note] of 30 January 1930 and government decrees issued in elaboration of it.

98.) ([Note] USSR Collected Laws, 1930, No. 8, Art.

Prior to this credit reform, socialist enterprises in the USSR had access to two sources of commercial credit since, along with bank credits, they could use commercial credits extended by other economic organizations. Promissory notes, accepted by the supplying economic organizations from the buying economic organizations, were discounted in the banks by the supplying economic organizations. Due to the existence of numerous short term credit banks during this period, Soviet economic organizations could discount the promissory notes and receive loans in various banks.

Along with the growing importance of the socialist sector in the Soviet economy and successes attained in the planning of the national economy, this commercial credit and its manifold sources became an inhibiting factor in the smooth growth of planning in the Soviet

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economy. To strengthen non-financed economic activities and promote accumulations within industry in all sections of the Soviet economy, direct credit ties were established between the socialist enterprises and the credit organizations.

At the same time this law was promulgated some specialization had already occurred in the USSR banking system. Under the 1930 law the functions of the short term credit and long term credit banks were divided, with short term credit operations being concentrated in the State Bank USSR. This reform, completed in 1932, had as its key feature the abolishing of commercial credits and the replacing of them with direct bank credits. As a result, the State Bank became the single supplier of short term credits to all socialist enterprises, either state or cooperative, for purchases of goods and services.

The credit reform was designed to make possible direct monetary control over the execution of economic plans and the building up of reserves in Soviet enterprises. In addition, it provided an incentive for all enterprises to take an intense interest in the realization of the plans, by reducing costs and accelerating the growth of reserves.

With the abolishment of the commercial credit system all settlements between socialist enterprises were centralized in the State Bank. As a result of this, the State Bank became not only the single short term credit bank but also the sole settling and cashing center in the socialist economy. Such a complete abolishment of commercial credit and the centralization in a single bank of all short term credits and settlements, may only be realized under a socialist economic system.

The basic principles of the credit reform were at first seriously distorted in practice. In 1931, the Communist Party and the government took strong measures to put an end to these erroneous applications of the credit reform regulations. The present procedure for settlements and credit operations is still basically the same as that established by the decrees of the Council of People's Commissars USSR of 14 January 1931 (Collected Laws, 1931, No.4, Art. 52.) and of 20 March 1931 (Collected Laws, 1931, No.18, Art.166.). The same is true of the decrees of the Council of Labor and Defense of 23 July 1931 (Collected Laws, 1931, No.46, Art. 316.), concerning the working capital of all state  
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associations, trusts and other economic organizations.

According to the rule concerning the settling of accounts, payments due to the supplying organizations could be made only if the payments had been duly approved by the purchasing economic organization. Acceptance of a bill, i. e., consent of the buyer to the payment for goods shipped to his address, was accordingly acknowledged as the main method of settling accounts.

As to the release of credits to the socialist enterprises, the procedure required that the total of granted loans should not exceed the limits justified by the contracts concluded with other enterprises. In addition, these credits were to be provided at the same pace as the actual execution of the contracts. Thus, the plan did not automatically decide the credit. Rather, it was decided by the degree to which the plan was executed.

The following basic principles were established for providing credits in the Soviet economy: the loan should be of a purposeful nature, firm repayment dates should be fixed, and the refundability and guaranteed character of the loans must be assured.

Interest is paid by the socialist enterprises to the State Bank for the credits granted to them. But the role of interest in the Soviet economy is entirely different from its role in capitalist countries. Interest serves as one of the tools of a non-financial economy. It encourages the socialist enterprises to resort to the State Bank's loans only in cases of actual need and to repay the loans with utmost speed.

The State Bank was given the right to impose "credit sanctions," i. e., to take punitive credit measures against careless debtors.

The socialist enterprises were allotted working capital of their own. This was intended to cover their financial needs in connection with the stocking of minimum quantities of material goods such as raw materials, semi-manufactured goods, finished articles and goods, as well as funds for uncompleted production and expenses of future years.

When such needs exceed the established limits, and if they are of a provisional character, short term loans are issued to the socialist enterprises by the State Bank. Such credits are granted mainly in connection with investments in processes of seasonal production, accumulation of seasonal stocks of raw materials, fuel and finished goods, and also in connection with pro-

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visional investments in an uncompleted production, and other temporary needs resulting from the process of production and circulation. Aside from such provisional needs, credits of the State Bank may also be used to cover needs of funds invested in goods shipped to the buyer until they are paid for.

Later on the State Bank started granting loans to enterprises in some branches of economic activity which needed such loans to help cover the financing of permanent stocks of material goods. In this way, Soviet retail trade and heavy industrial enterprises are provided with working capital of their own sufficient to finance the stocking of a part of the minimum quantities of material goods which are in constant use (about 30%). The remaining part of such stocks are covered by loans from the State Bank. This method enables the State Bank to exercise, through credit, monetary control over the execution of the production and trade plans of these branches of the Soviet economy.

In some of the socialist enterprises norms for their own working capital were set up for each kind of material goods, i. e., minimum necessary stocks of such material goods expressed in days and covered by their own working capital.

Decrees of the Council of Labor and Defense (Sovet Truda i Oborony) of 23 July 1931 on working capital set up the proportions in which the financial requirements of the socialist enterprises were to be supplied from their own working capital or covered by State Bank loans. This made possible the realization of one of the most important principles of Soviet crediting, i. e., firm repayment dates and refundability, and served to define the exact contents of the credit plans of the socialist enterprises and of the State Bank itself.

As a result of credit reforms elaborated later by decree, the State Bank USSR has become the real clearing organization of the socialist economy, the all-state apparatus for the control of production and distribution of products and the united center of short term crediting in the USSR. Thus the State Bank exercises an actual daily monetary control over the production, circulation and financial plans and, correspondingly, over the progress of reserve accumulations in the Soviet economy.

As may be seen from the aforesaid, the Soviet system of account settling and crediting is based on

socialist relations of production, and therefore, cannot be realized in any capitalist country. This system is one of the most important financial levers promoting the strengthening and developing of the socialist economy.

## 2. Procedure of Settling Accounts by Soviet Foreign Trade Associations Within the Soviet Economy.

Foreign trade associations, as well as other socialist enterprises not financed by the state, are autonomous economic units. They are independent legal persons possessing certain amounts of material and pecuniary funds which are allotted to them on a permanent or provisional basis.

Foreign trade associations, being independent in their operations and financing, are solely responsible for the liabilities they take upon themselves in their dealings with other socialist enterprises or foreign firms or organizations. At the same time, they are responsible to the Soviet state for the execution of their economic tasks. This economic independence of the Soviet non-financed enterprises, to which category foreign trade associations belong, is expressed in the fact that they have their own balance sheets and their own financial plans.

In order to execute the foreign trade tasks they are entrusted with the foreign trade associations enter into economic relations with other Soviet socialist enterprises, supplying them with import goods or purchasing from the export goods. Settlements of accounts resulting from these transactions, which take place within the Soviet economy, are subject to the general procedures in force in the USSR.

Settlements of foreign trade associations may be divided into the following groups: those with Soviet customer-consignors and buyers of import goods, with Soviet suppliers of export goods, with offices and agencies of some associations transferred to a non-financed basis, with transport and insurance organizations, with the Ministry of Finance USSR, and with the State Bank USSR. As a result of the credit reform all settlements between socialist enterprises, with the exception of those of small amounts, are effected through the State Bank on a no-cash basis by the transfer of corresponding amounts from the settlement account of one economic organization to the settlement account of another.

Settlements made through the State Bank apparatus, ]

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from the standpoint of their techniques and conditions of settling, may be further divided into in-city and out-of-city groups. The basic forms of the out-of-city settlements at present are: collection of payment claims, letters of credit and special accounts.

The most widely used form of settling between Soviet economic organizations, the one which is also used by the foreign trade associations in their dealings with suppliers of export goods and customers and buyers of import goods are collection bills. The peculiarity of this form of settling is in the fact that the cost of goods or services rendered is paid by the buying organization at its location. In this form of settlement, payments for goods or services rendered are made after acceptance, i. e., after the supplier's payment claim is duly consented to. This form of settling establishes direct relations between supplying organizations and buyers. It enables the buying organizations to check on whether the supplier does duly carry out his engagements. This in its turn stimulates the supplying party to take constant care of proper quality, due quantity and the right time of deliver of his goods. Thus, the collection bill system of settling promotes the strengthening of the non-financed organizations in the Soviet economy.

The technical procedure for the collection bill form of settlement, which was introduced by the State Bank in 1936, is as follows. The supplying organization delivers to the agency of the State Bank it is dealing with, a claim of payment for the goods shipped to the buyer, accompanied by the invoice. Cargo manifests are mailed by the supplying organization directly to the buying organization. The agency of the State Bank at the location of the supplying organization mails the claim of payment with all the pertinent documents to the agency of the State Bank at the location of the buying organization or payor, for collection. The agency of the State Bank at the location of the buyer-payor advises the buying organization about the arrival of the claim for payment. According to the procedure which operated until 1959, in the case of out-of-city settlements, if the buyer accepted the payment claim, he had to render the payment within 10 days, to the agency of the State Bank with which he was dealing. Since the buyer was given three days to accept the payment claim there was thus a seven-day period between the accepting of the claim and the paying date.

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Beginning with 1 January 1959, in order to accelerate the settlement process between enterprises, organizations and state institutions, the above mentioned days of grace were abolished. Payment of bills (claims of payment) in out-of-city settlements for goods or services rendered, is now made within the period established for acceptance of bills (claims of payment) that is, within three days.

Changing the procedure in force until 1955, claims of payment received by an economic organization buyer are now paid by way of the so-called "negative" or "silent" acceptance. This means that if the buying economic organization does not declare its refusal of acceptance to the State Bank, the latter will consider the claim of payment as accepted, and at the expiration of the fixed period, will write off the corresponding amount from the settlement account of the buyer and remit it to the supplying economic organization. Buying economic organizations also have a right of partial acceptance, but sufficient reasons must be set forth for both refusal of acceptance or partial acceptance.

Foreign trade associations have the right to refuse acceptance of a bill in the following circumstances: if the claim of payment refers to goods for which no formal order was made out by the foreign trade association; if the goods were already paid for; if the claim of payment is not accompanied by the documents referred to in the order and which are necessary for settlement and acceptance; if there are contradictions between the bill and the attached documents; or if the goods were shipped to a wrong destination. Partial acceptance of a claim of payment may be made: when the prices of goods or for services rendered, charged by the supplying organization, are in excess of those previously fixed; when quantities of the shipped goods exceed those of the order; when along with the goods ordered, other goods which the order did not call for were shipped; or when calculation errors appear in the claim of payment or in the bill.

Letters of credit and special accounts as forms of settlement differ from acceptances in that payment for goods or services is effected at the locality of the supplying economic organization. In settlements by letters of credit, the buying economic organization issues a commercial letter of credit on whose strength the agency of the State Bank at the locality of a supplier, pays the supplier's bills covering goods shipped to the

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buyer. This form is advantageous to the supplier because of the immediate payment for their goods which follows presentation of all documents required by the terms of the letter of credit. The disadvantage of the letter of credit, as well as of special accounts, lies in the fact that they often lead to a dispersion of working capital of buying economic organizations. Besides, the buyer cannot exercise control over the proper execution by the supplier of his engagements, and the agency of the State Bank dealing with the supplier is not in a position to follow all details of the transaction between the supplying and buying economic organizations.

The special account has some similarity to the letter of credit form of settlement and is usually used in two cases: when the buyer has to make settlements with several suppliers located in one city, or when long term economic relations are established with one supplier. The special account, as well as the letter of credit, reduces the possibilities for easy maneuvering of buying economic organizations' working capital.

Letters of credit and special accounts are not used in settlements of accounts for import goods. Almost all settlements in import transactions are made by collection bills. In settlements for export goods letters of credit are likewise rarely used. Special accounts are used by foreign trade associations when settlements are made in ports with many different suppliers or repeated settlements with one supplier.

In-city settlements between socialist enterprises are made mainly by means of claims for payment to be collected, checks for settling, and payments by commission. These forms of settlement are used by the foreign trade associations too.

Collection of the payment claims through the State Bank is the basic form used in in-city settlements. Like in out-of-city settlements, in order to settle accounts in this form the supplying organization issues a claim of payment to the buying economic organization. This payment claim, accompanied by the bills and other necessary documents, is delivered to the State Bank for collection. The State Bank, in its turn, advises the buying economic organization of their arrival. The latter is required to make payment within two days after the arrival of the claims at the State Bank. "Negative" and "silent" acceptances are used here too.

In in-city settlements, amounts under 100 rubles



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should be cleared in cash only. Settlements for amounts from 100 to 1,000 rubles may be made in cash, by checks for settlement, or payments by commission. To settle accounts exceeding 1,000 rubles (sometimes 250 rubles) in in-city transactions, claims of payment should be drawn on the buyers and delivered for collection to the State Bank. This also may be done by checks for settlement or payment by commission.

In practice, settlements through payment by commission are used in in-city transactions when the amount of the bill is small or when shipping documents delivered to the buyer or consigner have not yet arrived. The difference between the check for settlement and the payment by commission lies in the fact that a check for settlement may be issued only if it can be covered by the balance in the account. Issuance of a bad check is a prosecutable offense.

Payment by commission, however, may be issued to the supplier in payment for goods, even if the buyer does not have a sufficient balance in his account. In such cases the State Bank accepts the payment by commission for execution, and pays in accordance with existing priority rules as the settlement account is supplied with funds.

Settlements of the foreign trade associations with other Soviet organizations and foreign firms are executed through the settlement accounts opened for them in the State Bank. In order to put these settlements in a proper perspective, considering the peculiar conditions of foreign trade, when it is found expedient, special accounts are opened for the foreign trade associations along with the main settlement accounts.

Special accounts are intended to facilitate a better control by the State Bank over the movement of funds which are to be transferred to the Ministry of Finance, to the account of state budget income, or for future remittances to the foreign supplying or buying firms so as to cover commercial or credit liabilities of the associations. Settlement accounts of the foreign trade associations, as well as loan accounts, are entered by the State Bank in rubles, even if the accounts reflect the movement of amounts entered or paid in foreign currency.

When it is necessary, in addition to the main settlement account, the foreign trade associations may have special accounts for settlements with separate Soviet suppliers of export goods.

Special accounts are opened by the State Bank for such export associations, which, as for example, Exportles (Lumber Export) have long term business relations with certain suppliers. Suppliers deliver the goods to the offices of these associations in Soviet ports. Settlements with them are made by such offices on the spot from the special accounts opened in the name of associations, these latter empowering their offices to accept supplier's claims of payment to be paid from the special accounts.

In addition, the foreign trade associations may have blocked accounts for export operations which reflect advance payments made by foreign buyers.

The foreign trade associations dealing in import transactions, in addition to a main settlement account, also have special accounts which reflect the customs revenues which are later transferred to the account of the Ministry of Finance USSR, and also special blocked accounts for import operations. These latter reflect the movement of amounts received from Soviet customers and buyers (consignors), but not yet remitted to the foreign suppliers.

It should be noted that the foreign trade associations dealing in both import and export operations, have only one main settlement account in the State Bank. It reflects receipts and disbursements of their own working capital, and payment of wages. Commissions of the associations for the entrusted import operations and other amounts are also entered in this account.

### 3. Crediting of the Foreign Trade Operations by the State Bank USSR

In a capitalist economy bank crediting of commercial and industrial enterprises and of foreign trade operations is spontaneous and unplanned. But in the USSR crediting of the production processes and the circulation of goods (foreign trade operations included) is all subject to a plan. This plan is included in the State Bank's credit plan which is a part of the national economic plan.

The basic principles of crediting of socialist enterprises--fixed dates of repayment, refundability, purposeful nature of the crediting, availability of guarantees in the form of material goods--are also applied to the loans extended by the State Bank to the foreign trade associations.

However, the forms and conditions of the State Bank's credits to socialist enterprises differ for various branches of the Soviet economy. These differences are determined by the fact that the State Bank tries to take into consideration the specific features of every given branch of economic activity.

The State Bank makes the following loans available to economic organizations carrying on their activities solely within the USSR: loans for seasonal accumulations of material goods, loans for seasonal expenses, loans for commodity circulation, loans for goods under shipment, and other provisional needs. In loans to socialist enterprises granted for purposes of seasonal accumulations of commodities and material goods, seasonal expenses and commodity circulation, crediting may be extended only to the commodities and material goods, expenses and stocks of commodities in circulation, which are not covered by the working capital of the enterprise in question.

Till the end of 1939 this rule of crediting was also applied to the foreign trade associations. Beginning with the end of 1939, the working capital of such associations was no longer required to be used to help finance their import and export operations. Loans for such operations are granted to the associations without limits to the full extent of commodity circulation, but within the limits of the total amount of the foreign trade credits, as approved by the government in the credit plans of the State Bank USSR.

The fact that all requirements of associations for export and import operations are fully guaranteed by State Bank credits, is one of the important peculiarities of crediting of foreign trade, as compared with that of other branches of Soviet economic activities. At the same time, these unlimited credits for foreign trade make even more effective the State Bank's monetary control over movements of import and export goods and amounts under settlements, as well as financial and economic activities of the foreign trade associations.

Working capital of their own is used by the foreign trade associations only to cover such items as the remaining parts of the packing, auxiliary materials, spare parts, rubber, fuel, inflammables, lubricating materials and other prospective production supplies and expenses.

Crediting of export operations by the State Bank.  
Credits of the State Bank for export operations are intended to supply the foreign trade associations with the

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funds they need to pay for goods they receive for export, until the sales earnings are received from the foreign buyers. The need for export credits by the foreign trade associations depends upon the conditions under which the export goods are delivered to the association by the Soviet supplier, the terms of settlement with the latter, and also the terms of supplying and settlement for the goods with the foreign buyers (F.O.B., F.C.R. border station, C.I.F., etc.; letter of credit or bills for collection).

The main kinds of State Bank loans used by the foreign trade association for export operation in 1940-1955 were loans on export goods in the USSR and loans on export goods shipped abroad (export loans). The marked increase in the USSR's foreign trade turnover after World War II, as well as the strengthening of financial and economic discipline in the work of the foreign trade associations, made possible and expedient the simplification of the State Bank's foreign trade crediting system. Since the beginning of 1956, crediting of export operations has been through one type of credit in the form of a special loan account on export operations, thus differing from the former procedure. Moreover, the associations settling their accounts with Soviet suppliers of the export goods in the form of letters of credit or special accounts, receive from the State Bank loans for the issue of letters of credit and special accounts, on terms common to all other socialist enterprises. They also receive loans on common terms on the basis of documents concerning settlements underway within the USSR in connection with goods withdrawn from export. Finally, the foreign trade associations, as well as other economic organizations, receive loans for the payment of checks written on the unlimited checking account for settlement of accounts with transport organizations.

The only peculiar feature is the crediting of the foreign trade associations in the form of special loan accounts on export operations, which were substituted for the two kinds of export loans in use before 1956. To open a special loan account for export operations, the foreign trade associations must submit to the State Bank a formal obligation-application.

By this obligation-application the foreign trade associations transfer to the State Bank in pledge as a security for the credits obtained by the special loan account, all export goods they have within the USSR.]

or abroad, or on the way abroad, as well as their claims on foreign buyers. At the same time, the associations assent to an agreement that all amounts in their favour accruing from the sales of export goods or for services rendered to its foreign correspondents, and entered in the USSR State Bank's accounts, will be placed at the complete disposal of the State Bank. In the same application the associations concede to the State Bank the right to deduct from the settlement accounts of the associations the amounts due to the State Bank for repayment of credits.

The State Bank's credits to the foreign trade associations by special loan accounts on export trade operations, may be granted for the following purposes:

- 1) For payment of settlement documents (supplier's claims of payment), and overhead expenses on exports made in the USSR or abroad.
- 2) For payments of the debit letters of advice from the banks of the countries of the socialist camp, in connection with uncompleted settlements for export goods, due to the claims from buying organizations in these countries for refunds of the amount of bills for collection paid by them which they do not acknowledge.
- 3) For payment of debts resulting from the loans on import goods turned for re-export.
- 4) For payment of the loans on letters of credit issued for settlement with Soviet suppliers of the export goods, and also payment of debts on loans granted for the opening of special accounts.

Special applications to the State Bank are not required from the associations each time they receive a separate loan for a special loan account.

The majority of the loans do not require obligations with a fixed date. However, some separate credits on special loan account for export operations are granted only for some fixed terms. Thus, credits on export goods in USSR warehouses are granted for terms no longer than three months, if such goods are earmarked for shipment to the West. Goods earmarked for shipment to the East, as well as the export goods of the foreign trade association "Exportles" (Lumber Export), irrespective of the country of destination, are credited by the State Bank for terms up to six months. Credits for comparatively long terms are granted by the State Bank on goods in USSR warehouses only where the government has granted special permission.

In cases of export goods shipped abroad without a

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forward consignment contract to be offered for sale from warehouses, and goods sold on open account, terms of the loans are fixed in accordance with the terms stipulated in the corresponding contracts with buyers. If no fixed term appears in the contract loans are granted for a term not exceeding 1 year.

Loans may be granted for terms up to 2-3 years on industrial equipment shipped abroad from the USSR to capitalist countries on consignment. In the case of goods shipped abroad without a forwarding contract, or with a forwarding contract but with settlement by an open account, loans to the associations may be granted only by a special permit from the Ministry of Foreign Trade.

Payments of debts on the special loan accounts in the case of export operations is made by the State Bank and an application is not required in each and every case. Payment of such debts is made by the State Bank mainly from receipts from the sale of goods, and partly from:

Funds entering from the clearing accounts of the countries of the socialist camp for the goods supplied or services rendered, payments for which are effected in the form of bills for collection with immediate payment.

Earnings in foreign exchange for the export of goods sold in the capitalist countries, entering from letters of credit, bills for collection drawn by the associations on the State Bank for collection of payment for the sold goods, and remittances from the foreign buyers abroad for the export goods and services rendered to them.

Funds entering on export settlement accounts and goods shipped on account of the credit agreements.

Loans on settlement documents on the way relating to settlements for goods withdrawn from export and sold within the USSR.

Crediting of the import operations. The foreign trade associations dealing in import operations are basically agents carrying out commissions of Soviet enterprises for purchases of import goods from abroad. In executing import operations, as in the case of export operations, associations do not receive working capital of their own. Their administrative and sundry expenses in connection with these operations, are covered by the commissions they draw from their customer-consignors, and all their overhead expenses in connection

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with the import of goods they make at the expense of their consigners.

Funds necessary to the associations for settlements with the foreign suppliers for the import goods are issued to them in the form of loans for a time until the cost of the import goods is paid for by the Soviet customer-consigners. All forms of loans on import operations are granted in amounts of the actual value of import goods, with the addition of the expenses of transport to the USSR, converting the amounts of foreign exchange into rubles at the rates of the State Bank.

Since 1956 the new procedures for crediting have been used for import operations as well as for export operations. Prior to this, five kinds of loans were available to the foreign trade associations including loans for letters of credit, loans on import goods abroad, loans on import goods on the way to the USSR from abroad, loans on import goods in USSR warehouses, and loans on settlement documents on the way to the USSR.

At present, instead of all these loans, the State Bank grants only two kinds of loans on import operations to the foreign trade associations: 1) Loans used to draw letters of credit for settlements with the foreign firms and supplying organizations for supplied goods and services rendered by them. 2) Loans on imports on the way to the USSR from abroad, as well as on imports in storage in the USSR and abroad, and on settlement documents on the way to the USSR.

The second type of loan is granted to the foreign trade associations in the form of special loan accounts. Depending upon the terms of settlement associations have with the foreign firms and supplying organizations foreign trade associations can use both kinds of loans in import operations or dispense with them altogether.

In order to open a loan account for drawing of a letter of credit abroad, the foreign trade associations have to submit a special obligation-application to the State Bank. By this application the foreign trade associations transfer to the State Bank unused funds they have in their accounts in the State Bank on the letters of credit issued by them abroad for payment for goods and services, the documents for disposal of goods paid for under the letters of credit issued by them, and their rights to pledges of goods paid for under the letters of credit issued by them.

In the same obligation-application the foreign trade associations concede to the State Bank the right

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to effect payment of debts on the loan account for the drawing of letters of credit, and in cases where the amount of debts on the loan account exceeds the offered guarantees, the right to deduct funds from the settlement account of the foreign trade association.

Separate loans for drawing letters of credit are granted by the State Bank against declarations of the foreign trade associations regarding issuances of letters of credit. Loans are issued in rubles in amounts equal to the amount of foreign exchange at the operative rates.

Expiration dates of letters of credit are fixed in accordance with terms of contracts concluded by associations with foreign suppliers. These dates may be extended by the State Bank upon application of the associations if sufficient reasons are set forth. The letter of credit's expiry date is also the expiry date for the loan used to draw the letter of credit.

Loans used to draw letters of credit are paid from loans on the special loan account and/or from refunds of unused balances on letters of credit. Payment of loans used to draw letters of credit from the special loan account on import goods is due to the fact that goods paid from the letters of credit, while on the way and until they are paid for by the Soviet consignor, are credited by the State Bank.

Special Loan Accounts for Import Goods. These accounts are used by the State Bank to credit the foreign trade associations for import goods on the way to the USSR from abroad, in warehouses in the USSR or abroad, and also on settlement documents for import goods on the way to the USSR.

To obtain a credit on special loan accounts for import goods foreign trade associations must submit to the State Bank an obligation-application by which they transfer to the latter the rights of pledge to all import goods they have abroad, on the way to the USSR from abroad, and in the USSR--in ports, railway stations, warehouses, or any other place of storage. By the same application they engage themselves to watch closely the movement of their debt in the special loan account, not allowing use of the pledged goods without substituting other goods or paying the corresponding part of the debt to the State Bank.

Loans on import goods in warehouses in the USSR or abroad, are granted by the State Bank to the associations only if they have a permit to store them from a corresponding department. Loans on the special loan

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account for import goods are granted on invoice amounts of the corresponding goods and also on the actual cost of the import overhead expenses.

This kind of loan is granted by the State Bank to furnish the foreign trade associations with funds necessary for settlements with the foreign suppliers of import goods for a period of time until these goods are paid for by Soviet customers and buyers. In this connection credits on the special loan account for imported goods are granted by the State Bank to the foreign trade associations for the payment of bills of suppliers from the countries of the socialist camp for the goods or services rendered, with whom settlements are made in the form of bills for collection with immediate payment, payment of bills for collection on commissions from suppliers abroad, made in settlement of imported goods supplied or services rendered, payments for remittances made by the foreign trade associations abroad in payment for goods purchased on open account, and payment of debts on loans granted by the State Bank to the foreign trade associations for the drawing of letters of credit abroad.

As a general rule, loans on import goods from the special loan account are granted for a term of 10 days. In most cases this term is sufficient for the foreign trade associations. However, if this loan cannot be cleared within this term due to the absence of the shipping documents necessary for writing up of a bill to a Soviet customer, which often happens in the case of sea transportation of import goods from far away countries, this loan term is correspondingly prolonged. To have the term prolonged by the State Bank the foreign trade associations submit an application stating the reasons for extension along with a contract with fixed dates for completion. Such contracts with fixed dates are also submitted by foreign trade associations in some other cases to obtain loans. Thus, the State Bank requires such contracts in the case of loans on import goods stored by the foreign trade associations in warehouses abroad or in the USSR. Terms of the loans are fixed in accordance with the term of storage of the goods in the warehouse approved by the department to which the association belongs. In the case of goods on the way to the USSR from abroad, the term is fixed taking into consideration the period of time during which the goods will be on the way from the foreign port ]

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to the port or border station of the USSR. Clearance of debts on the special loan account made on import goods, is basically effected by amounts paid by Soviet customers and buyers against claims of payment issued by the associations on import goods already shipped.

If the imported goods are intended for re-export, clearance is effected on account of a loan obtained from a special loan account on import goods. Funds repaid by the foreign trade organizations of the countries of the socialist camp due to refusal of Soviet foreign trade associations to confirm the bills already paid for by the bank, are also used for clearance of the above debts. Finally, if the amounts from the above mentioned sources are not sufficient, the uncleared part of the debt is written off from the settlement account of the foreign trade association.

As has already been stated, one of the most important principles of crediting in the socialist economy is that the credits are guaranteed by the material goods. If debts on loans of any given socialist enterprise exceed the value of the commodities and material goods which were accepted by the State Bank, it means that the normal progress of its economic and financial activities is disturbed.

As security for loans on import and export operations the State Bank accepts import and export goods, shipping documents following goods, claims of associations on Soviet customers and foreign buyers and other material goods. Such goods and rights of claim may serve as guarantees for credits only within the limits of fixed storage terms, periods of time on the way, and terms of corresponding loans. Thus, import goods in ports of the USSR are accepted as security if their term of storage does not exceed one month.

Commodities and material goods serving as security on loans are checked monthly by the State Bank by the balance sheet of the foreign trade association. Besides, spot checks are carried out not less than once a month, based on accounting data showing the terms of storage of goods in the USSR or abroad, periods of time they were on way, and timely claims of payments from the foreign buyers.

When an association fails to submit its balance sheet to the State Bank within the fixed term, the officer in charge of the association is advised, and in 10 days after this advice, the State Bank stops payments of bills from suppliers for export goods and services

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rendered, payments from the special account of the association, and also loans for opening of special accounts and letters of credit in the USSR.

Auditing of a balance sheet exposes loans which are overdue and import and export goods which are on way or in storage for terms longer than fixed for them. Such goods are excluded by the State Bank from the amount accepted for security, which in its turn causes the debts of the association on loans to exceed the amounts of security. Amounts of debts not covered by security are recovered by the State Bank from the settlement account of the association, and if there are insufficient funds in this account, this uncovered amount of debt is transferred to a loans overdue account on which higher interest rates are charged. In case an association is showing bad work, in certain circumstances the State Bank may take appropriate measures (transfer of some enterprises showing bad work to a special system of crediting and settlement).

The system of foreign trade crediting by the State Bank, which became effective in 1956, considerably simplified loan techniques to foreign trade associations. In this system the machinery for crediting import and export operations by the State Bank works nearly automatically, so that the granting and clearance of every loan does not require any active steps by the association, the application for the drawing of letters of credit abroad being the only exception. As a rule, all loans are granted and cleared avoiding the settlement accounts of the associations. At the same time, crediting of import and export operations of foreign trade associations depends upon how they observe the normal terms in the turnover of goods and settlement of accounts.

The system of crediting by the State Bank of foreign trade associations and other socialist enterprises, is designed to guarantee the reality of daily monetary control by the State Bank over their financial and economic activity. This system promotes the strengthening of non-financed economic activity and makes it possible to accelerate, through credit turnover, funds in the foreign trade associations.

The advantages of a socialist economy such as social ownership of the means of production and planned management of the national economy, which excludes anarchy of production, crises and competition, guarantee

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uninterrupted progress of expanded socialist production and accelerate the turnover of material means in the national economy. However, these advantages of a socialist economy may be fully realized only if all socialist enterprises (foreign trade associations included) take an active part in the struggle for strict economy, for increases in reserves in the economy, and for the acceleration of the turnover of working capital.

Accelerated turnover of working capital means additional production for the entire national economy. This acceleration creates essential reserves, helping to increase accumulations for purposes of capital constructions and finance social and cultural activities, as well as facilitating timely receipt of budget income.

Strict economy and accelerated turnover of working capital are important for a socialist economy not only in the sphere of production, but also in the sphere of circulation, to which foreign trade belongs.

To attain accelerated turnover of working capital and thus provide additional resources for the national economy, a detailed and profound study of the economics and finances of each foreign trade association is necessary. Without such a study it is impossible to uncover the factors which tend to accelerate the turnover of working capital and reduce circulation expenses in foreign trade.

Serious attention to the problems of financial economy of socialist enterprises (foreign trade associations included), and inculcation in their work of strict economy, will be of the greatest importance in the all-out struggle for fulfillment and over-fulfillment of the USSR's seven year plan of development for the years 1959-1965.